

Avista Corp.
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Spokane, Washington 99220-3727
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November 14, 2014

Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

RECEIVED
RECORDS MANAGEMENT
2014 NOV 14 PM 12:58
STATE OF WASH
UTIL. AND TRAN
COMMISSION

Re: Docket No. UE-011595, Monthly Power Cost Deferral Report,
October 2014

Dear Mr. King:

Enclosed are an original and five copies of Avista Corporation's Power Cost Deferral Report for the month of October 2014.

The report includes the monthly energy recovery mechanism (ERM) accounting journal together with backup workpapers (Attachment A). In October, actual net power costs were less than authorized costs by \$106,615. Year-to-date actual net power costs were less than authorized costs by \$9,176,544. A deferral entry of \$79,960 was made in the rebate direction. The ERM deferral at October 31, 2014 is \$3,882,408 in the rebate direction.

In Order 09, Docket UE-120436, the Company was authorized to return a portion of the accumulated ERM deferral balance to customers effective January 1, 2013. Total rebate revenue amounted to \$676,525 for the month of October 2014. After adjusting for revenue-sensitive expenses, \$646,149 of amortization of the deferral balance was recorded.

Actual net power costs for October 2014 were less than the authorized level due primarily to lower purchased power prices. Hydro generation was 2 aMW below the authorized level. Colstrip generation was 15 aMW above the authorized level. Kettle Falls generation was 5 aMW below the authorized level. Natural gas-fired generation was 38 aMW below the authorized level.

The average power purchase price was \$30.19/MWh compared to an authorized price of \$34.64/MWh. The net transmission expense (transmission expense less transmission revenue) was above the authorized level. Washington retail sales were 16 aMW below the authorized level.

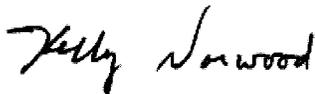
The report also includes the monthly renewable energy credits (REC) accounting journal together with backup workpapers (Attachment B). In October 2014, actual net REC revenues were greater than authorized net revenues by \$450,093. The Company records 100% of the net REC revenues in a separate deferral account per Order 09, Docket UE-120436.

Interest is calculated pursuant to the Settlement Stipulation approved by the Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002. Interest is applied to the average of the beginning and ending month deferral balances net of associated deferred federal income tax. The Company's actual cost of debt is used as the interest rate. The interest rate is updated semi-annually and interest is compounded semi-annually. The January and July reports contain the supporting workpapers for the semi-annual updates of the weighted cost of debt used in the interest calculations. Page 26 of the report for July 2014 shows the calculation of the cost of debt at June 30, 2014, which is used for the July through December 2014 period.

Enclosed are two forward long-term power contracts, one of which contains confidential, market-sensitive information. Avista and the counter-party to the agreement might be directly affected by disclosure of the confidential information. The first page of the confidential contract and the pages containing confidential information have been marked with the designation "confidential per WAC 480-07-160." The unredacted versions are being filed under seal. Six copies of the unredacted versions are being submitted in sealed envelopes, copied on yellow paper and identified as "Confidential Attachment D". Six copies of the redacted version are also being submitted. The contract that does not contain confidential information is identified as "Attachment C."

If you have any questions, please contact Bill Johnson at (509) 495-4046 or Jeanne Pluth at (509) 495-2204.

Sincerely,



Kelly Norwood
Vice President, State and Federal Regulation

JP

Enclosure

C: Mary Kimball, S. Bradley Van Cleve

AVISTA CORPORATION
STATE OF WASHINGTON
DOCKET NO. UE-011595
POWER COST DEFERRAL REPORT

MONTH OF OCTOBER 2014

RECEIVED
RECORDS MANAGEMENT
2014 NOV 14 PM 12:58
STATE OF WASH
UTIL. AND TRANS
COMMISSION

Page Items: Statind: DL Ferc Acct: 186280

▶ Service	▶ Jurisdiction	▶ Accounting Period	▶ Beginning Balance	▶ Monthly Activity	▶ Ending Balance
ED	WA	201310	0.00	0.00	0.00
ED	WA	201311	0.00	0.00	0.00
ED	WA	201312	0.00	1,256,447.00	1,256,447.00
ED	WA	201401	1,256,447.00	-1,247,407.00	9,040.00
ED	WA	201402	9,040.00	-9,040.00	0.00
ED	WA	201403	0.00	0.00	0.00
ED	WA	201404	0.00	0.00	0.00
ED	WA	201405	0.00	-1,748,236.00	-1,748,236.00
ED	WA	201406	-1,748,236.00	-914,303.00	-2,662,539.00
ED	WA	201407	-2,662,539.00	-1,955,345.00	-4,617,884.00
ED	WA	201408	-4,617,884.00	-42,368.00	-4,660,252.00
ED	WA	201409	-4,660,252.00	812,584.00	-3,847,668.00
ED	WA	201410	-3,847,668.00	-91,107.00	-3,938,775.00

ERM Deferral Balance (Current Year - 2014)			
<u>Account 186280.ED.WA</u>			
		Amount	Journal ID
Balance 9/30/2014		-\$3,847,668.00	
Deferral - Current Month		-79,960.00	481 - WA ERM
Interest - Current Month		-11,147.00	481 - WA ERM
Balance 10/31/2014		-\$3,938,775.00	
Year to date deferrals		-\$3,882,407.00	
Year to date interest		-56,368.00	
Balance in account		-\$3,938,775.00	
	<u>Total</u>	<u>Absorbed</u>	<u>Deferred</u>
First \$4,000,000 at 100%	-\$4,000,000.00	-\$4,000,000.00	\$0.00
\$4,000,000 to \$10,000,000 at 25%	-5,176,544.00	-1,294,137.00	-3,882,407.00
Over \$10,000,000 at 10%	0.00	0.00	0.00
Total	-\$9,176,544.00	-\$5,294,137.00	-\$3,882,407.00

RECEIVED
 RECORDS MANAGEMENT
 2014 NOV 14 PM 12:58
 STATE OF WASH
 UTIL. AND TRANSP
 COMMISSION

Page Items: Statind: DL Ferc Acct: 186290

▶ Service	▶ Jurisdiction	▶ Accounting Period	▶ Beginning Balance	▶ Monthly Activity	▶ Ending Balance
ED	WA	201310	-9,196,230.14	-28,137.00	-9,224,367.14
ED	WA	201311	-9,224,367.14	-28,137.00	-9,252,504.14
ED	WA	201312	-9,252,504.14	-28,137.00	-9,280,641.14
ED	WA	201401	-9,280,641.14	1,235,876.00	-8,044,765.14
ED	WA	201402	-8,044,765.14	9,319,254.14	1,274,489.00
ED	WA	201403	1,274,489.00	3,827.00	1,278,316.00
ED	WA	201404	1,278,316.00	-14,785.71	1,263,530.29
ED	WA	201405	1,263,530.29	3,692.00	1,267,222.29
ED	WA	201406	1,267,222.29	3,692.00	1,270,914.29
ED	WA	201407	1,270,914.29	-1,270,914.00	0.29
ED	WA	201408	0.29	-0.29	0.00
ED	WA	201409	0.00	0.00	0.00
ED	WA	201410	0.00	0.00	0.00

ERM Deferral Balance (Prior year - 2013)			
<u>Account 186290.ED.WA</u>		<u>Amount</u>	<u>Journal ID</u>
Balance 9/30/2014		\$0.00	
Interest - Current Month		0.00	481 - WA ERM
Balance 10/31/2014		\$0.00	

Page Items: Statind: DL Ferc Acct: 182350

▶ Service	▶ Jurisdiction	▶ Accounting Period	▶ Beginning Balance	▶ Monthly Activity	▶ Ending Balance
ED	WA	201310	-10,862,496.00	304,514.00	-10,557,982.00
ED	WA	201311	-10,557,982.00	295,773.00	-10,262,209.00
ED	WA	201312	-10,262,209.00	382,815.00	-9,879,394.00
ED	WA	201401	-9,879,394.00	546,382.00	-9,333,012.00
ED	WA	201402	-9,333,012.00	-8,518,899.14	-17,851,911.14
ED	WA	201403	-17,851,911.14	737,656.00	-17,114,255.14
ED	WA	201404	-17,114,255.14	599,294.22	-16,514,960.92
ED	WA	201405	-16,514,960.92	610,932.00	-15,904,028.92
ED	WA	201406	-15,904,028.92	580,003.00	-15,324,025.92
ED	WA	201407	-15,324,025.92	1,888,322.00	-13,435,703.92
ED	WA	201408	-13,435,703.92	711,638.21	-12,724,065.71
ED	WA	201409	-12,724,065.71	722,250.00	-12,001,815.71
ED	WA	201410	-12,001,815.71	612,676.00	-11,389,139.71

Recoverable Deferral Balance			
Account 182350.ED.WA		Amount	Journal ID
Balance 9/30/2014		-\$12,001,816.00	
Surcharge Amortization		646,149.00	481 - WA ERM
Interest		-33,473.00	481 - WA ERM
Balance 10/31/2014		-\$11,389,140.00	

Page Items: Statind: DL Ferc Acct: 283280

▶ Service	▶ Jurisdiction	▶ Accounting Period	▶ Beginning Balance	▶ Monthly Activity	▶ Ending Balance
ED	WA	201310	7,020,555.03	-96,731.95	6,923,823.08
ED	WA	201311	6,923,823.08	-93,672.60	6,830,150.48
ED	WA	201312	6,830,150.48	-563,893.75	6,266,256.73
ED	WA	201401	6,266,256.73	-187,197.85	6,079,058.88
ED	WA	201402	6,079,058.88	-276,960.25	5,802,098.63
ED	WA	201403	5,802,098.63	-259,519.05	5,542,579.58
ED	WA	201404	5,542,579.58	-204,577.98	5,338,001.60
ED	WA	201405	5,338,001.60	396,764.20	5,734,765.80
ED	WA	201406	5,734,765.80	115,712.80	5,850,478.60
ED	WA	201407	5,850,478.60	468,277.95	6,318,756.55
ED	WA	201408	6,318,756.55	-234,244.47	6,084,512.08
ED	WA	201409	6,084,512.08	-537,191.90	5,547,320.18
ED	WA	201410	5,547,320.18	-182,549.15	5,364,771.03

DFIT Associated with ERM Deferrals		
Account 283280.ED.WA		
Account 186280.ED.WA balance		-\$3,938,775.00
Account 186290.ED.WA balance		0.00
Account 182350.ED.WA balance		-11,389,140.00
Total		-\$15,327,915.00
Federal income tax rate		-35%
Deferred FIT related to deferrals		\$5,364,770
Rounding		1
Balance that should be in account - Oct 31, 2014		\$5,364,771

Page Items: Statind: DL Ferc Acct: 186322

▶ Service	▶ Jurisdiction	▶ Accounting Period	▶ Beginning Balance	▶ Monthly Activity	▶ Ending Balance
ED	WA	201310	-1,075,601.81	-197,447.00	-1,273,048.81
ED	WA	201311	-1,273,048.81	-36,192.00	-1,309,240.81
ED	WA	201312	-1,309,240.81	-297,707.00	-1,606,947.81
ED	WA	201401	-1,606,947.81	82,083.00	-1,524,864.81
ED	WA	201402	-1,524,864.81	-79,905.00	-1,604,769.81
ED	WA	201403	-1,604,769.81	-221,015.00	-1,825,784.81
ED	WA	201404	-1,825,784.81	-361,430.83	-2,187,215.64
ED	WA	201405	-2,187,215.64	84,889.00	-2,102,326.64
ED	WA	201406	-2,102,326.64	-21,300.25	-2,123,626.89
ED	WA	201407	-2,123,626.89	-140,262.00	-2,263,888.89
ED	WA	201408	-2,263,888.89	-180,438.00	-2,444,326.89
ED	WA	201409	-2,444,326.89	-271,407.00	-2,715,733.89
ED	WA	201410	-2,715,733.89	-458,544.00	-3,174,277.89

REC Deferral Balance		Amount	Journal ID
Account 186322.ED.WA			
Balance 9/30/2014		-\$2,715,733.89	
Deferral		-450,093.00	475 - WA REC DEFERRAL
Interest		-8,451.00	475 - WA REC DEFERRAL
Balance 10/31/2014		-\$3,174,277.89	
Balance 1/1/2014		-\$1,606,948	
Year to date deferrals		-1,625,710	
Year to date interest		-61,471	
Adjustment for reclassifying 2012 REC Expenses		36,510	
Adjustment for reclassifying 2013 REC Expenses		36,955	
Record ID Share of RECs used in WA for I-937 (6/14)		46,386	
Balance 10/31/2014		-\$3,174,278	

Page Items: Statind: DL Ferc Acct: 283305

▶ Service	▶ Jurisdiction	▶ Accounting Period	▶ Beginning Balance	▶ Monthly Activity	▶ Ending Balance
ED	WA	201310	375,749.63	69,817.45	445,567.08
ED	WA	201311	445,567.08	12,667.20	458,234.28
ED	WA	201312	458,234.28	104,197.45	562,431.73
ED	WA	201401	562,431.73	-28,729.05	533,702.68
ED	WA	201402	533,702.68	27,966.75	561,669.43
ED	WA	201403	561,669.43	75,592.30	637,261.73
ED	WA	201404	637,261.73	124,479.89	761,741.62
ED	WA	201405	761,741.62	-37,792.30	723,949.32
ED	WA	201406	723,949.32	19,320.09	743,269.41
ED	WA	201407	743,269.41	49,091.70	792,361.11
ED	WA	201408	792,361.11	63,153.30	855,514.41
ED	WA	201409	855,514.41	94,992.45	950,506.86
ED	WA	201410	950,506.86	160,490.40	1,110,997.26

DFIT Associated with REC Deferrals	
Account 283305.ED.WA	
Account 186322.ED.WA balance	-\$3,174,277.89
Total	-3,174,277.89
Federal income tax rate	-35%
Deferred FIT related to deferrals	\$1,110,997
Rounding	0
Balance that should be in account - Oct 31, 2014	\$1,110,997

Attachment A

Avista Corporation
Monthly Power Cost Deferral Report
Month of October 2014

ERM Deferral Journal

Avista Corporation Journal Entry

Effective Date: 201410

Journal: 481-WA ERM

Team: Resource Accounting

Type: C

Category: DJ

Currency: USD

Last Saved by: Tara Moses

Submitted by: Tara Moses

Approved by:

Last Saved: 11/07/2014 9:57 AM

Approval Requested: 11/07/2014 9:57 AM

Seq	Co	FERC	SEL	JUL	S/L	Debit	Credit	Comment
10	001	182350 - REGULATORY ASSET ERM APPROVED FOR RECOVERY	ED	WA	DL	646,149.00		Current Amortization
20	001	557290 - WA ERM AMORTIZATION	ED	WA	DL		646,149.00	Current Amortization Expense
30	001	182350 - REGULATORY ASSET ERM APPROVED FOR RECOVERY	ED	WA	DL		33,473.00	Interest Accrual for Amortization Balance
40	001	431600 - INTEREST EXPENSE ENERGY DEFERRALS CURRENT YEAR	ED	WA	DL	33,473.00		Interest Expense on Amortization Balance Current Year ERM (2014)
50	001	186280 - REGULATORY ASSET ERM DEFERRED CURRENT YEAR	ED	WA	DL		79,960.00	Current Year ERM Deferral Expense (2014)
60	001	557280 - DEFERRED POWER SUPPLY EXPENSE	ED	WA	DL	79,960.00		Current Year ERM Deferral Expense (2014)
70	001	186280 - REGULATORY ASSET ERM DEFERRED CURRENT YEAR	ED	WA	DL		11,147.00	Current Year ERM Interest Accrual (2014)
80	001	431600 - INTEREST EXPENSE ENERGY DEFERRALS CURRENT YEAR	ED	WA	DL	11,147.00		Current Year ERM Interest Expense (2014)
Totals:						770,729.00	770,729.00	

Tara Moses Date: 11.7.14
 Prepared by: Tara Moses
Tara Moses Date: 11/7/14
 Reviewed by:
 Approved for Entry Date:
 Corporate Accounting use Only

Explanation:
 Record current month deferred power supply costs, and interest per WA accounting order.

Avista Corp. - Resource Accounting
WASHINGTON POWER COST DEFERRALS

Line No.	WASHINGTON ACTUALS	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
	TOTAL	\$162,061,351	\$21,929,187	\$23,776,856	\$15,594,828	\$11,696,613	\$15,757,204	\$14,301,087	\$13,508,093	\$12,571,027	\$0	\$0	\$0
1	555 Purchased Power	(\$128,913,451)	(\$12,355,172)	(\$13,519,401)	(\$12,480,297)	(\$13,315,264)	(\$16,819,937)	(\$10,771,540)	(\$10,843,355)	(\$10,823,724)	\$0	\$0	\$0
2	447 Sale for Resale	\$2,985,535	\$268,806	\$306,942	\$337,238	\$316,893	\$282,911	\$289,200	\$273,184	\$284,648	\$0	\$0	\$0
3	Less SMUD RECs	\$22,510,138	\$2,404,223	\$1,871,612	\$2,179,270	\$1,105,711	\$1,184,988	\$2,197,774	\$3,102,692	\$3,305,897	\$2,444,916	\$0	\$0
4	501 Thermal Fuel	\$73,253,746	\$13,775,030	\$2,035,023	\$1,865,777	\$3,891,130	\$2,757,899	\$7,030,730	\$10,075,246	\$9,938,206	\$9,717,054	\$0	\$0
5	547 CT Fuel	(\$10,135,199)	(\$622,550)	(\$903,805)	(\$1,010,617)	(\$1,256,173)	(\$1,141,239)	(\$977,401)	(\$1,015,417)	(\$945,968)	\$0	\$0	\$0
6	456 Transmission Revenue	\$16,047,254	\$1,810,959	\$1,808,808	\$1,580,867	\$1,616,581	\$1,590,834	\$1,607,039	\$1,648,720	\$1,464,333	\$1,428,159	\$0	\$0
7	565 Transmission Expense	\$441,826	\$37,496	\$73,604	\$59,102	\$33,038	\$34,795	\$27,548	\$38,001	\$48,638	\$34,528	\$0	\$0
8	557 Broker Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9	Less Clearwater directly assigned to ID	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10	Adjusted Actual Net Expense	\$138,251,200	\$20,529,748	\$15,449,839	\$8,116,168	\$4,100,285	\$4,799,391	\$8,942,030	\$17,706,005	\$16,680,579	\$14,710,640	\$0	\$0
	Total through												
	October												
	AUTHORIZED NET EXPENSE-SYSTEM												
11	555 Purchased Power	\$104,066,497	\$13,232,443	\$12,710,608	\$10,429,524	\$6,530,863	\$8,277,524	\$8,213,533	\$10,240,223	\$8,038,783	\$9,414,550	\$12,786,401	\$13,454,232
12	447 Sale for Resale	(\$67,841,944)	(\$6,253,766)	(\$6,574,919)	(\$8,035,136)	(\$7,452,411)	(\$6,358,811)	(\$7,752,369)	(\$4,810,418)	(\$6,289,985)	(\$7,401,091)	(\$8,405,153)	(\$9,733,727)
13	Less SMUD RECs	\$3,839,689	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969	\$383,969
14	501 Thermal Fuel	\$25,101,485	\$2,667,744	\$2,775,501	\$2,020,557	\$1,704,426	\$1,475,295	\$2,739,032	\$2,967,332	\$2,819,939	\$3,052,568	\$2,913,823	\$3,010,108
15	547 CT Fuel	\$71,811,633	\$9,324,060	\$8,646,899	\$6,377,117	\$4,998,775	\$3,034,991	\$2,592,359	\$6,820,667	\$9,214,643	\$9,279,297	\$9,863,116	\$10,707,641
16	456 Transmission Revenue	(\$9,292,907)	(\$963,388)	(\$845,492)	(\$729,613)	(\$837,639)	(\$1,003,326)	(\$1,160,267)	(\$1,024,607)	(\$947,472)	(\$1,081,246)	(\$894,834)	(\$876,220)
17	565 Transmission Expense	\$14,740,160	\$1,465,382	\$1,508,739	\$1,443,538	\$1,426,268	\$1,396,752	\$1,441,175	\$1,489,048	\$1,492,163	\$1,556,734	\$1,674,187	\$1,644,370
18	557 Broker Fees	\$730,345	\$42,656	\$129,860	\$97,390	\$52,577	\$70,281	\$65,808	\$76,848	\$86,944	\$43,966	\$52,696	\$100,670
19	Authorized Net Expense	\$143,174,938	\$19,506,829	\$18,465,382	\$10,609,004	\$6,833,044	\$6,834,043	\$11,453,706	\$18,143,062	\$14,899,984	\$15,248,767	\$18,376,205	\$19,689,045
20	Actual - Authorized Net Expense	(\$4,923,738)	(\$7,079,886)	(\$3,015,743)	(\$2,492,836)	(\$2,732,759)	(\$2,034,652)	(\$2,511,676)	(\$437,057)	\$1,780,595	(\$38,127)	(\$1,780,595)	(\$1,780,595)
21	Resource Optimization - Subtotal	(\$2,359,047)	(\$405,020)	(\$1,335,360)	(\$442,568)	(\$414,909)	(\$459,113)	\$1,809,214	\$876,652	\$668,141	(\$223,497)	\$0	\$0
22	Adjusted Net Expense	(\$7,282,785)	(\$1,056,389)	(\$4,351,103)	(\$2,935,404)	(\$3,147,367)	(\$2,493,765)	(\$902,462)	\$439,595	\$2,448,736	(\$761,624)	\$0	\$0
23	Washington Allocation		65.24%	65.24%	65.24%	65.24%	65.24%	65.24%	65.24%	65.24%	65.24%	65.24%	65.24%
24	Washington Share	(\$4,751,289)	(\$689,188)	(\$2,838,660)	(\$1,915,057)	(\$2,053,342)	(\$1,626,932)	(\$588,766)	\$286,792	\$1,597,555	(\$496,883)	\$0	\$0
25	WA Retail Revenue Adjustment (+) Surcharge (-) Rebate	(\$4,425,255)	(\$830,724)	(\$417,082)	(\$534,397)	(\$503,758)	\$423,448	(\$1,982,498)	(\$318,928)	(\$526,167)	\$390,269	\$0	\$0
26	Net Power Cost (+) Surcharge (-) Rebate	(\$9,176,544)	(\$1,519,912)	(\$3,255,742)	(\$2,449,455)	(\$2,557,101)	(\$1,203,485)	(\$2,571,264)	(\$32,136)	\$1,071,389	(\$106,615)	\$0	\$0
27	Cumulative Balance	(\$1,519,912)	\$1,927,864	(\$1,327,878)	(\$3,777,332)	(\$6,334,433)	(\$7,537,918)	(\$10,109,181)	(\$10,141,317)	(\$9,069,929)	(\$9,176,544)	(\$9,176,544)	(\$9,176,544)
	Deferral Amount, Cumulative (Customer)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Deferral Amount, Monthly	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Act 55780 Entry; (+) Rebate, (-) Surcharge	\$3,882,408	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	Company Band Gross Margin Impact, Cumulative	(\$1,519,912)	\$1,927,864	(\$1,327,878)	(\$3,777,332)	(\$4,884,479)	(\$4,884,479)	(\$5,510,918)	(\$5,514,132)	(\$5,267,482)	(\$5,294,136)	(\$5,294,136)	(\$5,294,136)

Avista Corp. - Resource Accounting
WASHINGTON DEFERRED POWER COST CALCULATION - ACTUAL SYSTEM POWER SUPPLY EXPENSES

Line No.		Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
	TOTAL												
1	555 PURCHASED POWER	\$75,727,325	\$11,898,194	\$14,107,971	\$6,938,087	\$5,469,423	\$5,126,007	\$10,215,710	\$8,449,088	\$7,185,578	\$6,337,267	\$0	\$0
2	Short-Term Purchases	\$9,272,545	\$1,026,705	\$1,026,705	\$1,026,705	\$1,026,705	\$1,026,705	\$1,026,705	\$1,026,705	\$1,026,705	\$1,026,705	\$0	\$0
3	Chelan County PUD (Rocky Reach Slice)	\$926,794	\$3,150	\$101,639	\$127,766	\$161,523	\$172,784	\$132,694	\$98,733	\$40,668	\$87,837	\$0	\$0
4	Douglas County PUD (Wells Settlement)	\$1,362,354	\$150,506	\$150,506	\$150,506	\$150,506	\$150,506	\$150,506	\$150,506	\$154,406	\$154,406	\$0	\$0
5	Douglas County PUD (Wells)	\$4,686,876	\$549,554	\$520,764	\$520,764	\$520,764	\$520,764	\$520,764	\$520,764	\$520,764	\$520,764	\$0	\$0
6	Grant County PUD (Priest Rapids/Wanapur)	\$6,479,145	\$3,454,781	\$1,705,589	\$1,651,867	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7	Bonneville Power Admin. (WNP-3)	\$3,240	\$18	\$18	\$18	\$19	\$19	\$1,532	\$630	\$505	\$480	\$0	\$0
8	Inland Power & Light - Deer Lake	\$946,563	\$121,331	\$167,249	\$146,778	\$123,506	\$113,336	\$113,336	\$90,477	\$75,664	\$71,984	\$0	\$0
9	Small Power	\$1,184,120	\$178,286	\$157,311	\$118,246	\$120,073	\$65,607	\$168,582	\$180,910	\$163,193	\$170,740	\$0	\$0
10	Slimson Lumber	\$1,594,540	\$150,261	\$39,458	\$204,574	\$289,605	\$336,463	\$82,126	\$1,445	\$17,254	\$68,531	\$0	\$0
11	City of Spokane-Optiver	\$4,795,133	\$619,383	\$395,558	\$645,199	\$529,962	\$523,312	\$390,099	\$620,148	\$613,311	\$637,699	\$0	\$0
12	City of Spokane - Waste-to-Energy	\$655,472	\$210,622	\$266,856	\$388,616	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
13	JP Morgan Ventures - Stateline Wind	\$18,244,648	\$2,186,817	\$1,884,054	\$1,877,735	\$1,928,506	\$1,894,139	\$2,043,436	\$2,167,053	\$2,167,898	\$2,167,053	\$0	\$0
14	Rathdrum Power, LLC (Lancaster PPA)	\$13,961,330	\$1,140,491	\$2,366,987	\$2,186,010	\$1,412,516	\$1,381,478	\$1,121,940	\$861,293	\$1,416,550	\$1,289,474	\$0	\$0
15	Palouse Wind	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	Clearwater (PFI)	\$482,413	\$59,153	\$61,701	\$48,858	\$46,299	\$47,258	\$56,900	\$54,813	\$45,503	\$45,865	\$0	\$0
17	WPM Ancillary Services	\$101,831	\$92,461	\$291,648	\$18,080	(\$52,669)	\$13,555	(\$159,790)	\$78,522	\$81,094	(\$39,988)	\$0	\$0
18	Non-Mon. Accruals	\$162,061,351	\$21,929,187	\$23,776,856	\$15,594,828	\$11,696,613	\$11,288,454	\$15,757,204	\$14,301,087	\$13,509,093	\$12,571,027	\$0	\$0

(1) Effective November, 2008, WNP-3 purchase expense has been adjusted to reflect the mid-point price, per Settlement Agreement, Cause No. U-86-98

447 SALES FOR RESALE

19	Short-Term Sales	(\$89,954,194)	(\$12,424,978)	(\$7,244,895)	(\$8,489,016)	(\$9,615,777)	(\$7,795,255)	(\$12,649,634)	(\$6,841,904)	(\$7,279,979)	(\$7,737,744)	\$0	\$0
20	Peaker LLC/PGE Cap Sale	(\$1,457,785)	(\$146,020)	(\$144,955)	(\$146,085)	(\$146,020)	(\$145,215)	(\$146,020)	(\$146,020)	(\$145,085)	(\$146,020)	\$0	\$0
21	Nichols Pumping Index Sale	(\$1,396,891)	(\$148,801)	(\$93,285)	(\$87,351)	(\$96,325)	(\$85,420)	(\$153,324)	(\$179,710)	(\$170,457)	(\$147,387)	\$0	\$0
22	Sovereign/Kaiser Load Following	(\$71,663)	(\$6,912)	(\$6,660)	(\$6,491)	(\$6,554)	(\$6,476)	(\$6,450)	(\$6,574)	(\$6,391)	(\$6,391)	\$0	\$0
23	Pend Oreille DES	(\$255,932)	(\$39,819)	(\$39,966)	(\$43,619)	(\$43,619)	(\$37,226)	(\$34,810)	(\$30,900)	(\$29,930)	(\$29,930)	\$0	\$0
24	SMUD 50 + 25	(\$16,940,772)	(\$1,845,354)	(\$2,577,410)	(\$1,401,992)	(\$1,388,188)	(\$1,456,315)	(\$1,714,819)	(\$1,720,772)	(\$1,584,190)	(\$1,584,190)	\$0	\$0
25	Merchant Ancillary Services	(\$18,736,214)	(\$2,187,988)	(\$2,108,495)	(\$2,264,329)	(\$2,032,875)	(\$1,660,627)	(\$2,114,880)	(\$1,774,450)	(\$1,490,741)	(\$1,147,944)	\$0	\$0
26	Total 447 Sales for Resale	(\$128,913,451)	(\$16,799,872)	(\$12,355,172)	(\$13,519,401)	(\$13,315,264)	(\$11,174,889)	(\$16,819,937)	(\$10,771,540)	(\$10,843,355)	(\$10,923,724)	\$0	\$0

501 FUEL-DOLLARS

27	Kettle Falls Wood-501110	\$5,020,928	\$704,547	(\$173,989)	\$518,089	\$422,078	\$213,315	\$535,881	\$773,930	\$693,646	\$709,625	\$0	\$0
28	Kettle Falls Gas-501120	\$17,098	\$743	\$9,950	\$1,274	\$506	\$1,668	\$4,413	(\$226)	\$3,674	\$116	\$0	\$0
29	Colstrip Coal-501140	\$17,175,906	\$1,697,324	\$2,020,484	\$1,637,377	\$622,207	\$943,848	\$1,656,643	\$2,259,435	\$2,576,439	\$1,717,435	\$0	\$0
30	Colstrip Oil-501180	\$296,208	\$1,609	\$15,197	\$25,076	\$60,920	\$25,757	\$837	\$69,553	\$32,138	\$17,740	\$0	\$0
31	Total 501 Fuel Expense	\$22,510,138	\$2,404,223	\$2,713,455	\$2,179,270	\$1,105,711	\$1,184,588	\$2,197,774	\$3,102,692	\$3,305,897	\$2,444,916	\$0	\$0

501 FUEL-TONS

32	Kettle Falls	396,428	54,406	21,970	37,478	30,441	15,237	38,442	54,228	48,005	49,557	\$0	\$0
33	Colstrip	744,125	65,707	86,804	63,926	39,893	38,755	83,825	95,663	94,979	98,294	\$0	\$0

501 FUEL-COST PER TON

34	Kettle Falls	wood	\$12.95	\$13.37	\$13.82	\$13.87	\$14.00	\$13.94	\$14.27	\$14.45	\$14.32	\$0	\$0
35	Colstrip	coal	\$25.83	\$23.56	\$25.61	\$15.60	\$24.35	\$19.76	\$23.62	\$27.13	\$17.47	\$0	\$0

547 FUEL

36	NE CT Gas/Oil-547213	\$99,261	\$979	\$37,568	(\$2,315)	(\$1,121)	\$331	\$3,019	\$21,446	\$20,788	\$1,188	\$0	\$0
37	Boulder Park-547216	\$645,245	\$88,747	\$44,316	\$6,204	\$30,556	\$96,458	\$69,751	\$59,389	\$9,250	\$9,250	\$0	\$0
38	Kettle Falls CT-547211	\$206,335	\$29,791	\$11,302	\$2,874	\$25,907	\$1,768,876	\$3,720,571	\$5,370,846	\$22,012	\$2,553	\$0	\$0
39	Coyote Springs2-547610	\$38,683,650	\$6,611,274	\$7,376,158	\$748,960	\$1,778,957	\$1,768,876	\$3,096,909	\$4,543,956	\$4,486,490	\$4,739,663	\$0	\$0
40	Lancaster-547312	\$33,288,418	\$5,442,430	\$6,130,985	\$883,482	\$1,100,609	\$963,511	\$3,096,909	\$4,543,956	\$4,486,490	\$4,739,663	\$0	\$0
41	Rathdrum CT-547310	\$430,837	(\$5,570)	\$119,190	\$7,945	\$81,630	\$126,141	\$36,061	\$130	\$130	(\$207)	\$0	\$0
42	Total 547 Fuel Expense	\$73,253,746	\$12,167,651	\$13,775,030	\$2,035,023	\$3,891,130	\$2,757,899	\$7,030,730	\$10,075,246	\$9,938,206	\$9,717,054	\$0	\$0

Avista Corp. - Resource Accounting
 WASHINGTON DEFERRED POWER COST CALCULATION - ACTUAL SYSTEM POWER SUPPLY EXPENSES

Line No.	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
43	TOTAL	\$19,409,004	\$26,062,500	\$14,164,090	\$7,149,578	\$3,378,190	\$4,056,052	\$8,165,771	\$16,707,485	\$15,909,841	\$13,909,273	\$0
44	455 TRANSMISSION REVENUE											
44	456100 ED AN	(\$9,606,094)	(\$759,958)	(\$766,656)	(\$875,192)	(\$1,147,715)	(\$1,063,457)	(\$975,788)	(\$1,015,417)	(\$945,968)	\$0	\$0
45	456120 ED AN - BPA Settlement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
46	456020 ED AN-Sale of excess BPA Trans	(\$529,105)	(\$2,988)	(\$137,149)	(\$135,425)	(\$108,458)	(\$135,726)	(\$1,613)	\$0	\$0	\$0	\$0
47	Exclude Prior Year BPA Settlement	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
48	456705 ED AN - Do not include Low Voltage	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
49	Total 455 Transmission Revenue	(\$10,135,199)	(\$762,946)	(\$903,805)	(\$1,010,617)	(\$1,256,173)	(\$1,199,183)	(\$977,401)	(\$1,015,417)	(\$945,968)	\$0	\$0
50	565 TRANSMISSION EXPENSE											
50	565000 ED AN	\$16,026,954	\$1,608,929	\$1,806,778	\$1,578,837	\$1,614,551	\$1,588,804	\$1,646,690	\$1,462,303	\$1,426,129	\$0	\$0
51	565312 ED AN	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
52	565710 ED AN	\$20,300	\$2,030	\$2,030	\$2,030	\$2,030	\$2,030	\$2,030	\$2,030	\$2,030	\$0	\$0
53	Total 565 Transmission Expense	\$16,047,254	\$1,610,959	\$1,808,808	\$1,580,867	\$1,616,581	\$1,590,834	\$1,648,720	\$1,464,333	\$1,428,159	\$0	\$0
54	Total 557170 ED AN Broker Fees	\$441,826	\$37,496	\$73,604	\$89,102	\$33,038	\$34,795	\$27,548	\$38,001	\$48,638	\$34,528	\$0
55	RESOURCE OPTIMIZATION											
55	Econ Dispatch-557010	(\$14,561,554)	\$308,085	(\$8,690,279)	(\$1,629,569)	(\$882,721)	(\$872,300)	(\$3,403,248)	(\$707,227)	(\$599,024)	\$727,137	\$0
56	Econ Dispatch-557150	\$11,880,950	\$928,477	\$11,640,860	\$3,548,645	\$1,963,092	\$4,550,624	\$184,052	(\$2,912,960)	(\$3,783,001)	(\$2,115,160)	\$0
57	Gas Bookouts-557700	\$2,426,011	\$663,498	\$0	\$0	\$0	\$299,710	\$0	\$252,278	\$559,845	\$0	\$0
58	Gas Bookouts-557711	(\$2,426,011)	\$0	(\$185,723)	\$0	\$0	(\$299,710)	\$0	(\$252,278)	(\$559,845)	\$0	\$0
59	Intraco Thermal Gas-557730	\$65,649,404	\$6,796,131	\$5,069,685	\$4,906,450	\$7,110,457	\$2,317,938	\$6,785,648	\$10,373,757	\$8,674,118	\$7,572,566	\$0
60	Fuel DispatchFin -456010	\$11,452,521	\$47,723	\$1,218,356	\$5,688,019	\$476,629	\$492,027	\$2,894,714	\$1,461,645	\$1,019,768	(\$460,833)	\$0
61	Fuel Dispatch-456015	(\$26,175,527)	(\$321,991)	(\$125,662)	(\$11,909,132)	(\$4,133,659)	(\$3,143,990)	(\$770,461)	(\$528,965)	(\$500,249)	(\$1,406,796)	\$0
62	Intraco Thermal Gas-456730	(\$50,571,881)	(\$8,059,830)	(\$4,002,364)	(\$4,271,142)	(\$5,747,562)	(\$3,803,501)	(\$4,081,612)	(\$6,809,697)	(\$4,143,576)	(\$4,640,485)	\$0
63	Fuel Bookouts-456711	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
64	Fuel Bookouts-456720	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
65	Resource Optimization Subtotal	(\$2,326,087)	(\$396,841)	(\$1,320,262)	(\$442,644)	(\$414,707)	(\$459,202)	\$1,609,093	\$876,533	\$668,036	(\$223,551)	\$0
66	Misc. Power Exp. Authorized	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
67	Misc. Power Exp. Actual-557160 ED AN	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
68	KFWF Contract Buyout	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
69	Misc. Power Exp. Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
70	Wind REC Exp Authorized	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
71	Wind REC Exp Actual 557395	(\$32,960)	(\$8,179)	(\$10,346)	\$76	\$99	\$89	\$121	\$119	\$105	\$54	\$0
72	Wind REC Subtotal	(\$32,960)	(\$8,179)	(\$10,346)	\$76	\$99	\$89	\$121	\$119	\$105	\$54	\$0
73	Net Resource Optimization	(\$2,359,047)	(\$405,020)	(\$2,232,888)	(\$442,568)	(\$414,608)	(\$459,113)	\$1,609,214	\$876,652	\$668,141	(\$223,497)	\$0
74	Adjusted Actual Net Expense	\$132,906,618	\$19,827,464	\$24,715,221	\$13,807,337	\$7,336,362	\$4,023,365	\$10,266,333	\$18,293,457	\$17,075,536	\$14,202,495	\$0

Avista Corp. - Resource Accounting
 Washington Electric Jurisdiction
Energy Recovery Mechanism (ERM) Retail Revenue Credit Calculation - 2014

Retail Sales - MWh	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	YTD
Total Billed Sales	573,032	545,716	506,123	443,610	428,312	409,626	427,457	486,327	491,736	421,698	-	-	4,733,637
Deduct Prior Month Unbilled	(379,964)	(358,118)	(333,394)	(319,373)	(306,107)	(306,279)	(306,819)	(378,698)	(394,548)	(316,958)	-	-	(3,390,258)
Add Current Month Unbilled	358,118	333,394	319,373	306,107	306,279	306,819	378,698	384,548	316,958	331,579	-	-	3,341,873
Total Retail Sales	551,186	520,992	492,102	430,344	428,484	410,166	499,336	492,177	424,146	436,319	-	-	4,885,252
Test Year Retail Sales	525,347	517,091	479,129	413,722	412,815	423,337	437,672	482,257	407,780	448,458	475,296	551,962	4,547,608
Difference from Test Year	25,839	3,901	12,973	16,622	15,669	(13,171)	61,664	9,920	16,366	(12,139)	-	-	137,644
Production Rate - \$/MWh	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15	\$32.15
Total Revenue Credit - \$	\$830,724	\$125,417	\$417,082	\$534,397	\$503,758	(\$423,448)	\$1,982,498	\$318,928	\$526,167	(\$390,269)	\$0	\$0	\$4,425,255

Avista Corp. - Resource Accounting
Sacramento Municipal Utility District (SMUD) Deal Delivery Summary From Nucleus

System NR	Deal #	\$/MWh	Volume - MWhs												Total MWhs	
			Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14		
System	141888	\$0.00	26	15	2,742	6	1,847	1,722	2,617	1,052	1,852	1,554				13,433
System	142305	\$9.00	-	100	28,447	33,225	27,651	26,355	4,191	-	-	-	-	-	-	119,969
System	141868	\$9.50	37,158	33,457	3,889	2,700	7,691	7,860	30,334	36,148	34,148	29,296				222,681
CS2	141878	\$8.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CS2	142314	\$7.50	-	-	350	-	-	-	-	-	-	6,285				6,635
Mid C	141880	\$8.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mid C	142315	\$7.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lanc	166019	\$8.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lanc	166020	\$7.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total All Deals			37,184	33,572	35,428	35,931	37,189	35,937	37,142	37,200	36,000	37,135				362,718
Total Excluding "Brown"			37,158	33,557	32,686	35,925	35,342	34,215	34,525	36,148	34,148	35,581				349,285
Power Deal 141888																

System NR	Deal #	\$/MWh	Dollars												Dollars		
			Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14			
System	141888	\$0.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
System	142305	\$9.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
System	141868	\$9.50	\$0	\$950	\$270,247	\$315,638	\$262,685	\$250,373	\$39,815	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,139,706
CS2	141878	\$8.00	\$297,264	\$267,656	\$31,112	\$21,600	\$61,528	\$62,880	\$242,672	\$289,184	\$273,184	\$234,368	\$0	\$0	\$0	\$0	\$1,781,448
CS2	142314	\$7.50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Mid C	141880	\$8.00	\$0	\$0	\$2,800	\$0	\$0	\$0	\$0	\$0	\$0	\$50,280	\$0	\$0	\$0	\$0	\$53,080
Mid C	142315	\$7.50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lanc	166019	\$8.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lanc	166020	\$7.50	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total All Deals			\$297,264	\$268,606	\$304,159	\$337,238	\$324,213	\$313,253	\$282,487	\$289,184	\$273,184	\$284,648	\$0	\$0	\$0	\$0	\$2,974,234
Total Excluding "Brown"			\$297,264	\$268,606	\$304,159	\$337,238	\$324,213	\$313,253	\$282,487	\$289,184	\$273,184	\$284,648	\$0	\$0	\$0	\$0	\$2,974,234
Power Deal 141888																	

Avista Corp. - Resource Accounting
Washington Energy Recovery Mechanism (ERM) Current Year Deferral

Changes Semiannually on January 1 and July 1

The rate is based on Avista's actual cost of debt, updated semiannually.

The actual cost of debt calculated at 6/30 will be used for the interest calculation from July through December.

The actual cost of debt calculated at 12/31 will be used for the interest calculation from January through June.

Interest will be accrued monthly and compounded semi-annually.

Interest is calculated using the prior month ending balance plus 1/2 month of current month charges times the current after tax interest rate

Actual cost of debt at 12/31/13 is	5.459%	Actual cost of debt at 06/30/14 is	5.343%
The monthly rate is:	0.00455 Before Tax 0.0029570 After Tax 35.00% Tax rate	The monthly rate is:	0.00445 Before Tax 0.0028941 After Tax 35.00% Tax rate

Account 186280

				<u>January</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
January	ERM Deferral	0		Deferral	0 Operating	0
January	Interest		0	Interest	0 Nonoperating	0
	01-31-2014 Balance before interest	0			0 Total	0
				<u>February</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
February	ERM Deferral	0		Deferral	0 Operating	0
February	Interest		0	Interest	0 Nonoperating	0
	02-28-2014 Balance before interest	0			0 Total	0
				<u>March</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
March	ERM Deferral	0		Deferral	0 Operating	0
March	Interest		0	Interest	0 Nonoperating	0
	03-31-2014 Balance before interest	0			0 Total	0
				<u>April</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
April	ERM Deferral	0		Deferral	0 Operating	0
April	Interest		0	Interest	0 Nonoperating	0
	04-30-2014 Balance before interest	0			0 Total	0
				<u>May</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
May	ERM Deferral	(1,750,825)		Deferral	(612,789) Operating	812,789
May	Interest		(2,589)	Interest	(906) Nonoperating	906
	05-31-2014 Balance before interest	(1,750,825)			(613,695) Total	813,695
				<u>June</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
June	ERM Deferral	(902,613)		Deferral	(315,915) Operating	315,915
June	Interest		(6,512)	Interest	(2,279) Nonoperating	2,279
	06-30-2014 Balance before interest	(2,653,438)			(318,194) Total	318,194
	GL Balance including Interest	(2,662,539)				
	Interest related to WNP-3		0			
	GL Balance including Interest	(2,662,539)				
				<u>July</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
July	ERM Deferral	(1,944,825)		Deferral	(680,689) Operating	680,689
July	Interest		(10,520)	Interest	(3,682) Nonoperating	3,682
	07-31-2014 Balance before interest	(4,607,364)			(684,371) Total	684,371
				<u>August</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
August	ERM Deferral	(28,922)		Deferral	(10,123) Operating	10,123
August	Interest		(13,376)	Interest	(4,682) Nonoperating	4,682
	08-31-2014 Balance before interest	(4,636,286)			(14,805) Total	14,805
				<u>September</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
September	ERM Deferral	824,738		Deferral	288,658 Operating	(288,658)
September	Interest		(12,224)	Interest	(4,278) Nonoperating	4,278
	09-30-2014 Balance before interest	(3,811,548)			284,380 Total	(284,380)
				<u>October</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
October	ERM Deferral	(79,960)		Deferral	(27,986) Operating	27,986
October	Interest		(11,147)	Interest	(3,901) Nonoperating	3,901
	10-31-2014 Balance before interest	(3,891,508)			(31,887) Total	31,887
				<u>November</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
November	ERM Deferral	0		Deferral	0 Operating	0
November	Interest		(11,262)	Interest	(3,942) Nonoperating	3,942
	11-30-2014 Balance before interest	(3,891,508)			(3,942) Total	3,942
				<u>December</u>	<u>DFIT Expense</u>	<u>ADFIT</u>
December	ERM Deferral	0		Deferral	0 Operating	0
December	Interest		(11,262)	Interest	(3,942) Nonoperating	3,942
	12-31-2014 Balance before interest	(3,891,508)				
	12-31-2014 Balance with interest	(3,902,770)				

Electric Revenue Report by Revenue Class Current Month and Year-to-Date for Accounting Period : 201410 , State Code : WA

Accounting Period: 201410 State Code: WA

Rate Schedule Num	Meters	Usage	Revenue Amt	YTD Avg Meters	Ytd Usage	Ytd Revenue Amt
001	206,253	148,283,896	12,930,915.72	205,324	1,974,994,186	172,230,479.91
011	21,813	40,443,515	4,827,104.86	21,705	444,526,094	52,268,922.19
012	8,866	3,823,470	558,055.14	8,824	47,251,794	6,559,913.72
021	1,967	115,973,079	10,570,391.36	1,958	1,158,723,390	104,796,730.87
022	54	2,504,480	219,754.41	53	29,809,800	2,585,191.51
025	21	93,878,439	5,444,664.58	21	925,389,644	53,530,427.13
030	32	3,060,770	211,981.54	32	24,336,666	1,686,356.69
031	1,198	10,829,045	895,200.10	1,190	99,338,075	8,139,111.53
032	1,216	811,996	85,269.46	1,213	8,371,162	867,254.37
041	11	8,720	2,007.21	11	87,200	20,040.70
042	292	1,121,888	381,759.30	293	11,198,961	3,800,525.36
044	13	24,587	3,165.39	13	245,870	31,639.17
044A	1	-	336.00	1	-	3,024.00
045	11	89,173	6,324.46	11	891,730	63,281.00
046	53	118,955	11,516.42	53	1,192,095	115,494.34
047	-	466,282	109,676.56	-	4,646,218	1,086,180.72
048	-	260,116	65,500.86	-	2,635,695	658,083.12
058	-	-	1,319,631.45	-	-	14,805,138.35
058A	-	-	(5,308.89)	-	-	(73,109.15)
062	-	-	-	-	-	-
090	-	-	-	-	-	-
095	-	-	15,177.13	-	-	152,688.23
099	-	-	50,121.94	-	-	508,309.28
Sum	241,801	421,698,411	37,703,245.10	240,701	4,733,638,580	423,835,663.04

10-14 Electric Unbilled Calc

ACCOUNT DESCRIPTION		TDWN	REVENUE CLASS CODE	RATE SCL	Current Gross Unbilled REVENUE	Prior Month Reversal KWH	Prior Month Reversal REVENUE	Net Change KWH	Net Change REVENUE
WASHINGTON									
Residential Service	2800		01	011	\$ 9,408,373	(108,274,802)	\$ (6,213,885)	2,382,275	\$ 185,688
Residential Farm Gen	2800		01	012	\$ 2,327,284.71	(2,432,748)	\$ (105,463)	384,639	\$ 49,612
Residential Farm Lg	2800		01	022	\$ 1,448,028.90	(1,465,987)	\$ (17,958)	189,039	\$ 15,124
Residential Farm Pump	2800		01	032	\$ 417,883.10	(457,349)	\$ (39,466)	(89,381)	\$ (3,062)
Commercial General	2800		21	011	\$ 28,292,846.01	(27,651,477)	\$ (641,369)	1,741,127	\$ 237,472
Commercial Lg General	2800		21	021	\$ 78,198,888.27	(84,148,811)	\$ (5,950,923)	9,056,268	\$ 688,668
Commercial Extra Lg	2800		21	026	\$ 24,187,811.00	(24,733,127)	\$ (545,316)	(598,116)	\$ (43,281)
Commercial Pump	2800		21	031	\$ 5,485,813.04	(6,233,079)	\$ (747,266)	(789,683)	\$ (62,182)
Industrial General	2800		31	011	\$ 313,476.98	(298,320)	\$ (15,157)	53,566	\$ 8,124
Industrial Lg General	2800		31	021	\$ 6,409,844.27	(5,426,820)	\$ (983,024)	983,024	\$ 71,647
Industrial Extra Lg	2800		31	025	\$ 71,839,460.00	(68,181,825)	\$ (3,657,635)	2,356,865	\$ 99,676
Industrial Pump	2800		31	031	\$ 2,472,877.95	(3,573,894)	\$ (1,101,016)	(1,100,916)	\$ (77,822)
WASHINGTON TOTAL					\$ 331,879,824.80	\$ 28,132,873	\$ (24,986,856)	\$ 14,620,617	\$ 1,205,878
IDAHO									
Residential Service	3800		01	001	\$ 4,828,340	(45,161,020)	\$ (40,332,680)	4,877,184	\$ 570,615
Residential Farm Gen	3800		01	012	\$ 1,184,282.84	(1,007,188)	\$ (177,094)	177,065	\$ 23,682
Residential Farm Lg	3800		01	022	\$ 452,795.78	(389,679)	\$ (63,116)	62,920	\$ 8,684
Residential Farm Pump	3800		01	032	\$ 174,153.59	(162,460)	\$ (11,693)	11,703	\$ 2,281
Commercial General	3800		21	011	\$ 17,450,188.38	(16,309,951)	\$ (1,140,237)	1,140,217	\$ 206,262
Commercial Lg General	3800		21	021	\$ 33,691,283.11	(34,923,237)	\$ (1,231,954)	3,788,028	\$ 390,857
Commercial Extra Lg	3800		21	025	\$ 4,938,643.00	(6,781,191)	\$ (1,842,548)	(189,848)	\$ 6,417
Commercial Pump	3800		21	031	\$ 2,189,501.87	(2,319,279)	\$ (129,777)	(179,774)	\$ (1,941)
Industrial General	3800		31	011	\$ 243,814.73	(288,920)	\$ (45,105)	(16,105)	\$ (89)
Industrial Lg General	3800		31	021	\$ 5,488,244.14	(4,711,042)	\$ (777,202)	1,475,942	\$ 87,613
Industrial Extra Lg	3800		31	025	\$ 23,987,211.00	(20,383,983)	\$ (3,603,228)	1,873,227	\$ 160,720
Industrial Pump	3800		31	031	\$ 1,462,989.37	(1,592,007)	\$ (129,018)	(286,118)	\$ (1,385)
IDAHO TOTAL					\$ 199,829,878.19	\$ 11,344,638	\$ (8,665,199)	\$ 11,961,028	\$ 1,449,389
WASHINGTON & IDAHO TOTAL					\$ 471,607,988	\$ 37,477,481	\$ (33,652,055)	\$ 26,581,645	\$ 2,655,267

471,607,988 \$

Washington Energy Recovery Mechanism (ERM) Amortizing Deferral Balance

Changes Semiannually on January 1 and July 1

The rate is based on Avista's actual cost of debt, updated semiannually.

The actual cost of debt calculated at 6/30 will be used for the interest calculation from July through December.

The actual cost of debt calculated at 12/31 will be used for the interest calculation from January through June.

Interest will be accrued monthly and compounded semi-annually.

Interest is calculated using the prior month ending balance plus 1/2 month of current month charges times the current after tax interest rate

Actual cost of debt at 12/31/13 is	5.459%	Actual cost of debt at 06/30/14 is	5.343%
The monthly rate is:	0.00455 Before Tax	The monthly rate is:	0.00445 Before Tax
	0.0029570 After Tax		0.0028941 After Tax
	35.00% Tax rate		35.00% Tax rate

Account 182350		3,457,788
12-31-2012 GL Balance including interest		(9,879,394)
January		
January	Surcharge Amortization	574,746
January	Interest	(28,364)
01-31-2014 Balance before interest		(9,304,648)
February		
February	Transfer from 186290	(9,308,084) 2012 Balance
February	Remove Jan. 2014 Interest	(27,443) Don't compound
February	Balance before Jan. Interest	(9,280,641) Use to calculate simple interest
February	Total Balance before Interest	(18,585,289) Total used to calculate simple interest
February	Surcharge Amortization	842,895
February	Interest	(53,710)
02-28-2014 Balance before interest		(17,742,394)
March		
March	Surcharge Amortization	788,954
March	Interest	(51,298)
03-31-2014 Balance before interest		(16,953,440)
April		
April	REC Expense Recless NSJ016	(32,859)
April	Surcharge Amortization	681,374
April	Interest	(49,221)
04-30-2014 Balance before interest		(16,304,925)
May		
May	Surcharge Amortization	658,173
May	Interest	(47,241)
05-31-2014 Balance before interest		(15,646,752)
June		
June	Balance transfer	
June	Surcharge Amortization	625,346
June	Interest	0 (45,343)
06-30-2014 Balance including interest		(15,021,406)
July		
July	GL Balance including interest	(15,324,026)
July	Transfer from 186290	1,270,914
July	Surcharge Amortization	657,064
July	Interest	(39,720)
07-31-2014 Balance before interest		(13,396,048)
August		
August	Surcharge Amortization	749,387
August	Interest	(37,685)
08-31-2014 Balance before interest		(12,646,661)
September		
September	Surcharge Amortization	757,754
September	Interest	(35,504)
09-30-2014 Balance before interest		(11,888,907)
October		
October	Surcharge Amortization	646,149
October	Interest	(33,473)
10-31-2014 Balance before interest		(11,242,758)
November		
November	Surcharge Amortization	
November	Interest	(32,538)
11-30-2014 Balance before interest		(11,242,758)
December		
December	Surcharge Amortization	
December	Interest	(32,538)
12-31-2014 Balance before interest		(11,242,758)
12-31-2014 Balance including interest		(11,275,296)

AVISTA CORPORATION
 OCTOBER 2014 WASHINGTON ENERGY RECOVERY MECHANISM REBATE REVENUE & DEFERRAL AMORTIZATION
AW

Schedule (a)	kWh or \$ (b)	Proration Percentages		Rebate Rates		Current Month Rebate Revenue		Total (i) (g)+(h)
		Before 01-Jan-14 (c)	On/After 01-Jan-14 (d)	Before 01-Jan-14 (e)	On/After 01-Jan-14 (f)	Rate On/After 01-Jan-13 (h)	Rate On/After 01-Jan-13 (h)	
1	148,283,896	0.00%	100.00%	(0.090¢)	(0.164¢)	0	-243,186	-243,186
11	40,443,515	0.00%	100.00%	(0.110¢)	(0.224¢)	0	-90,593	-90,593
12	3,823,470	0.00%	100.00%	(0.110¢)	(0.224¢)	0	-8,565	-8,565
21	115,973,079	0.00%	100.00%	(0.083¢)	(0.169¢)	0	-195,995	-195,995
22	2,504,480	0.00%	100.00%	(0.083¢)	(0.169¢)	0	-4,233	-4,233
25	93,878,439	0.00%	100.00%	(0.053¢)	(0.108¢)	0	-101,389	-101,389
30	3,060,770	0.00%	100.00%	(0.073¢)	(0.150¢)	0	-4,591	-4,591
31	10,829,045	0.00%	100.00%	(0.073¢)	(0.150¢)	0	-16,244	-16,244
32	811,996	0.00%	100.00%	(0.073¢)	(0.150¢)	0	-1,218	-1,218
41-46	1,363,323	0.00%	100.00%	(0.246¢)	(0.503¢)	0	-6,858	-6,858
47	466,282	0.00%	100.00%	(0.246¢)	(0.503¢)	0	-2,345	-2,345
48	260,116	0.00%	100.00%	(0.246¢)	(0.503¢)	0	-1,308	-1,308
Schedule Totals	421,698,411					\$0	-\$676,525	-\$676,525

kWh not subject to surcharge	0	Conversion factor	0.955100
Sch 62	0	Amortization	-\$646,149
Total kWh	421,698,411	FIT rate	-35%
		DFIT expense	\$226,152

cm

Attachment B

Avista Corporation
Monthly Power Cost Deferral Report
Month of October 2014

REC Revenues Deferral Journal

Printed 11/05/2014 at 2:02 pm

Avista Corporation Journal Entry

Effective Date: 201410

Journal: 475-WASHINGTON REC DEFERRAL

Team: Resource Accounting Last Saved by: Tara Moses

Type: C Submitted by: Tara Moses

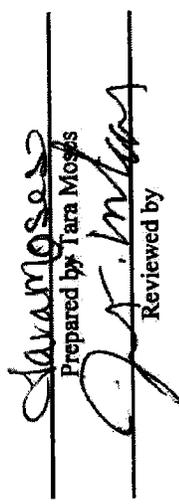
Category: DJ Approved by:

Currency: USD

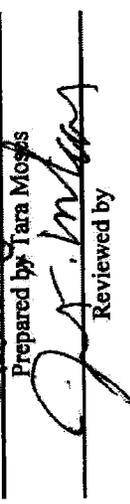
Last Saved: 11/05/2014 2:02 PM

Approval Requested: 11/05/2014 2:02 PM

Seq	Co.	FERC	Set.	Jur.	S/L	Debit	Credit	Comment
10	001	557322 - DEF POWER SUPPLY EXP-RECS	ED	WA	DL	450,093.00		WA REC Deferral Expense
20	001	186322 - MISC DEF DEBIT - WA REC DEF	ED	WA	DL		450,093.00	WA REC Balance
30	001	419016 - INTEREST INCOME ON REC DEFERRAL	ED	WA	DL		0.00	WA REC Interest Income Accrual
40	001	186322 - MISC DEF DEBIT - WA REC DEF	ED	WA	DL		0.00	WA REC Balance Interest Income Accrual
50	001	431016 - INTEREST EXPENSE ON REC DEFERRAL	ED	WA	DL	8,451.00		WA REC Interest Expense Accrual
60	001	186322 - MISC DEF DEBIT - WA REC DEF	ED	WA	DL	458,544.00	8,451.00	WA REC Balance Interest Expense Accrual
Totals:							458,544.00	



 Prepared by: Tara Moses Date: 11/5/14



 Reviewed by: Date: 11/5/14

 Approved for Entry Date:

 Corporate Accounting use Only

Explanation:
 To account for the Washington REC Deferral per Washington UE-120436 and UE-120437.

Avista Corp. - Resource Accounting
 DJ475 - Washington REC Deferral

Changes Semiannually on January 1 and July 1

The rate is based on Avista's actual cost of debt, updated semiannually.

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Actual cost of debt at 12/31/13 is	5.459%	Actual cost of debt at 06/30/14 is	5.343%
The monthly rate is:	0.00455 Before Tax	The monthly rate is:	0.00445 Before Tax
	0.0029570 After Tax		0.0028941 After Tax
	35.00% Tax rate		35.00% Tax rate

0

Account 186322-ED-WA

Beginning Balance Including Interest interest				(1,606,948)			
January	REC Deferral	86,707		January	DFIT Expense	ADFIT	
January	Interest		(4,624)	Deferral	30,347 Operating		(30,347)
01-31-2013	Balance before interest	(1,520,241)		Interest	(1,618) Nonoperating		1,618
					28,729 Total		(28,729)
February	REC Deferral	(75,298)		February	DFIT Expense	ADFIT	
February	Transfer 2012 Balance from 254360		(4,607)	Deferral	(26,354) Operating		26,354
February	Interest			Interest	(1,612) Nonoperating		1,612
February	EWEB REC Balance Interest from Jan. 2013				(27,966) Total		27,966
02-28-2013	Balance before interest	(1,595,539)					
March	REC Deferral	(215,978)		March	DFIT Expense	ADFIT	
March	Interest		(5,037)	Deferral	(75,592) Operating		75,592
03-31-2013	Balance before interest	(1,811,517)		Interest	(1,763) Nonoperating		1,763
					(77,355) Total		77,355
April	NSJ016 - Transfer Prior Yr REC Exp	73,465		April	DFIT Expense	ADFIT	
April	REC Deferral	(429,122)		Deferral	(150,193) Operating		150,193
April	Interest		(5,774)	Interest	(2,021) Nonoperating		2,021
04-30-2013	Balance before interest	(2,167,174)			(152,214) Total		152,214
May	REC Deferral	91,028		May	DFIT Expense	ADFIT	
May	Interest		(6,139)	Deferral	31,860 Operating		(31,860)
05-31-2013	Balance before interest	(2,076,146)		Interest	(2,149) Nonoperating		2,149
					29,711 Total		(29,711)
June	REC Deferral	(61,390)		June	DFIT Expense	ADFIT	
June	NSJ014 - REC Deferral Adj	46,386		Deferral	(21,487) Operating		21,487
June	Interest		(6,296)	Deferral Adj	16,235 Operating		(16,235)
06-30-2013	Balance before interest	(2,091,150)		Interest	(2,204) Nonoperating		2,204
					(7,456) Total		7,456
July	GL Balance including interest	(2,123,627)		July	DFIT Expense	ADFIT	
July	REC Deferral	(133,921)		Deferral	(46,872) Operating		46,872
July	Interest		(6,340)	Interest	(2,219) Nonoperating		2,219
07-31-2013	Balance before interest	(2,257,548)			(49,091) Total		49,091
August	REC Deferral	(173,652)		August	DFIT Expense	ADFIT	
August	Interest		(6,785)	Deferral	(60,778) Operating		60,778
08-31-2013	Balance before interest	(2,431,200)		Interest	(2,375) Nonoperating		2,375
					(63,153) Total		63,153
September	REC Deferral	(263,991)		September	DFIT Expense	ADFIT	
September	Interest		(7,416)	Deferral	(92,397) Operating		92,397
09-30-2013	Balance before interest	(2,695,191)		Interest	(2,596) Nonoperating		2,596
					(94,993) Total		94,993
October	REC Deferral	(450,093)		October	DFIT Expense	ADFIT	
October	Interest		(8,451)	Deferral	(157,533) Operating		157,533
10-31-2013	Balance before interest	(3,145,284)		Interest	(2,958) Nonoperating		2,958
					(160,491) Total		160,491
November	REC Deferral			November	DFIT Expense	ADFIT	
November	Interest		(9,103)	Deferral	0 Operating		0
11-30-2013	Balance before interest	(3,145,284)		Interest	(3,186) Nonoperating		3,186
					(3,186) Total		3,186
December	REC Deferral			December	DFIT Expense	ADFIT	
December	Interest		(9,103)	Deferral	0 Operating		0
12-31-2013	Balance before interest	(3,145,284)		Interest	(3,186) Nonoperating		3,186
					(3,186) Total		3,186

**Avista Corp. - Resource Accounting
 Washington REC Deferral Summary - DJ475**

	Debit	Credit	Entry
EC REVENUE & EXPENSE			
October Revenue			
186322		\$507,060	
557322	\$507,060		
October Expense			
186322	\$56,967		
557322		\$56,967	
October Total			
186322	\$56,967	\$507,060	\$450,093 Credit
557322	\$507,060	\$56,967	-\$450,093 Debit

Avista Corp. - Resource Accounting
 DJ 475 - Washington REC Deferral
 2014 REC Revenue Deferral Calculation
 Per UE-120436 and UG-120437 Order 14

	Actual	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total
Non WA EIA - Voluntary REC Revenue	(\$48,303)	(\$281,613)	(\$501,200)	(\$657,881)	(\$11,848)	(\$235,112)	(\$302,584)	(\$336,748)	(\$469,848)	\$0	(\$859,088)	\$0	\$0	(\$3,705,228)
WA EIA937 Requirement (EWEB) - PGE Revenue	\$0	\$0	\$0	(\$97,500)	\$0	\$0	\$0	\$0	\$0	\$0	(\$65,000)	\$0	\$0	(\$162,500)
Sacramento Municipal Utility District (SMUD) - REC Revenue	(\$297,264)	(\$268,606)	(\$306,942)	(\$337,238)	(\$328,649)	(\$316,893)	(\$282,911)	(\$289,200)	(\$273,184)	(\$273,184)	(\$294,648)	\$0	\$0	(\$2,985,535)
Total	(\$346,667)	(\$550,219)	(\$808,142)	(\$1,092,619)	(\$340,497)	(\$582,006)	(\$585,496)	(\$585,496)	(\$625,948)	(\$743,032)	(\$1,208,737)	\$0	\$0	(\$6,853,261)
Authorized - System														
Non WA EIA - Voluntary REC Revenue	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$31,458)	(\$314,583)
WA EIA937 Requirement (EWEB) - PGE Revenue	\$0	\$0	\$0	(\$79,000)	\$0	\$0	\$0	\$0	\$0	\$0	(\$79,000)	\$0	\$0	(\$158,000)
Sacramento Municipal Utility District (SMUD) - REC Revenue	(\$470,394)	(\$424,872)	(\$469,762)	(\$455,220)	(\$470,394)	(\$455,220)	(\$313,596)	(\$313,596)	(\$303,480)	(\$334,938)	(\$424,054)	(\$303,902)	(\$313,596)	(\$3,980,130)
Total Authorized	(\$601,852)	(\$456,330)	(\$501,220)	(\$665,678)	(\$501,852)	(\$486,678)	(\$348,054)	(\$348,054)	(\$348,938)	(\$424,054)	(\$336,360)	(\$336,360)	(\$336,360)	(\$4,462,713)
Difference														
Non WA EIA - Voluntary REC Revenue	(\$17,845)	(\$250,154)	(\$469,742)	(\$626,423)	\$19,610	(\$203,654)	(\$271,126)	(\$305,290)	(\$438,390)	(\$438,390)	(\$827,630)	\$31,458	\$31,458	(\$3,330,642)
WA EIA937 Requirement (EWEB) - PGE Revenue	\$0	\$0	\$0	(\$18,500)	\$0	\$0	\$0	\$0	\$0	\$0	\$14,000	\$0	\$0	(\$4,500)
Sacramento Municipal Utility District (SMUD) - REC Revenue	\$173,130	\$156,266	\$162,820	\$117,982	\$141,745	\$138,327	\$30,685	\$24,396	\$30,296	\$28,948	\$303,902	\$313,596	\$313,596	\$1,004,595
Total (+) = Surcharge	\$155,285	(\$83,888)	(\$306,922)	(\$526,941)	\$161,355	(\$65,327)	(\$240,441)	(\$280,894)	(\$108,094)	(\$784,682)	\$336,360	\$336,360	\$336,360	(\$2,390,547)
WA Share of Difference														
Non WA EIA - Voluntary (65.24%)	(\$11,642)	(\$163,201)	(\$306,459)	(\$408,678)	\$12,794	(\$132,864)	(\$176,882)	(\$199,171)	(\$286,005)	(\$286,005)	(\$539,946)	\$20,523	\$20,523	(\$2,212,055)
WA EIA937 Requirement (EWEB) - PGE Revenue (100%)	\$0	\$0	\$0	(\$18,500)	\$0	\$0	\$0	\$0	\$0	\$0	\$14,000	\$0	\$0	(\$4,500)
SMUD (65.24%)	\$112,950	\$101,948	\$106,224	\$76,971	\$92,474	\$90,245	\$20,019	\$15,916	\$19,765	\$18,886	\$198,265	\$198,265	\$198,265	\$655,398
Total - 100% Surcharge (+) or Rebate (-)	\$101,308	(\$61,253)	(\$200,236)	(\$350,207)	\$105,268	(\$42,619)	(\$166,863)	(\$183,259)	(\$266,240)	(\$307,060)	\$218,789	\$218,789	\$218,789	(\$1,561,157)

Accounting Entries	Debit	Credit												
186322-ED-WA														
557322-ED-WA														

Avista Corp. - Resource Accounting
 DJ 475 - Washington REC Deferral
 2014 REC Expense Deferral Calculation
 Per UE-120436 and UG-120437 Order 14

Actual	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Total
Other Non WA EIA - Voluntary REC Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Non WA EIA - Voluntary REC Broker Fee Expense	\$2,625	\$5,324	\$5,603	\$5,639	\$7,906	\$0	\$1,896	\$14,692	\$3,420	\$6,842	\$0	\$0	\$53,947
Total Other Non WA EIA REC Expenses	\$2,625	\$5,324	\$5,603	\$5,639	\$7,906	\$0	\$1,896	\$14,692	\$3,420	\$6,842	\$0	\$0	\$53,947
WA EIA937 Requirement (EWEB) - Expense	\$183,498	\$0	\$0	\$116,566	\$0	\$0	\$202,101	\$0	\$0	\$232,899	\$0	\$0	\$735,063
WA EIA937 Requirement (EWEB) - Broker Fee Expense	\$3,964	\$0	\$0	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$3,964	\$0	\$0	\$39,635
WA EIA 937 Requirement (EWEB) - Broker Fee Expense	\$187,461	\$3,964	\$3,964	\$120,529	\$3,964	\$3,964	\$206,065	\$3,964	\$3,964	\$236,863	\$0	\$0	\$774,698
Total WA EIA 937 Requirement REC Expenses	\$187,461	\$3,964	\$3,964	\$120,529	\$3,964	\$3,964	\$206,065	\$3,964	\$3,964	\$236,863	\$0	\$0	\$774,698
Authorized System													
Other Non WA EIA - Voluntary REC Expense	\$29,760	\$26,880	\$29,760	\$28,760	\$29,760	\$28,800	\$0	\$0	\$0	\$0	\$0	\$0	\$173,720
WA EIA937 Requirement (EWEB) - Expense	\$184,359	\$3,945	\$3,945	\$184,359	\$3,945	\$3,945	\$184,359	\$3,945	\$3,945	\$184,359	\$3,945	\$3,945	\$761,109
Total Authorized	\$214,119	\$30,825	\$33,705	\$213,119	\$33,705	\$32,745	\$184,359	\$3,945	\$3,945	\$184,359	\$3,945	\$3,945	\$750,470
Difference													
Other Non WA EIA - Voluntary REC Expense	(\$27,135)	(\$21,556)	(\$24,157)	(\$23,121)	(\$21,854)	(\$28,800)	\$1,896	\$14,692	\$3,420	\$6,842	\$0	\$0	(\$119,773)
WA EIA937 Requirement (EWEB) - Expense	\$3,102	\$18	\$18	(\$63,830)	\$18	\$18	\$21,705	\$18	\$18	\$52,503	(\$3,945)	(\$3,945)	\$13,589
Total	(\$24,033)	(\$21,537)	(\$24,139)	(\$86,952)	(\$21,836)	(\$28,782)	\$23,601	\$14,710	\$3,438	\$59,345	(\$3,945)	(\$3,945)	(\$106,184)
WA Share of Difference													
Non WA EIA - Voluntary (65.24%)	(\$17,703)	(\$14,063)	(\$15,760)	(\$15,084)	(\$14,258)	(\$18,789)	\$1,237	\$9,565	\$2,231	\$4,464	\$0	\$0	(\$78,140)
WA EIA937 Requirement (EWEB) - (100%)	\$3,102	\$18	\$18	(\$63,830)	\$18	\$18	\$21,705	\$18	\$18	\$52,503	(\$3,945)	(\$3,945)	\$13,589
Total - 100% Surcharge (+) or Rebate (-)	(\$14,601)	(\$14,045)	(\$15,742)	(\$78,915)	(\$14,240)	(\$18,771)	\$22,942	\$9,603	\$2,249	\$56,967	(\$3,945)	(\$3,945)	(\$64,551)
Accounting Entries													
186322:ED-WA	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Debit	Debit	Debit	Debit	Credit
557322:ED-WA	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Credit	Credit	Credit	Credit	Debit

Attachment C

**Avista Corporation
Monthly Power Cost Deferral Report
Month of October 2014**

Long-Term Power Transaction

DUPLICATE
 ORIGINAL

11/21/14
 SS

		Agenda Sheet for City Council Meeting of:		Date Rec'd	10/22/2014
11/03/2014				Clerk's File #	OPR 2014-0726
				Renews #	
Submitting Dept	SPOKANE REGIONAL SOLID WASTE SYSTEM		Cross Ref #		
Contact Name/Phone	KEN GIMPEL	625-6532	Project #		
Contact E-Mail	KGIMPEL@SPOKANECITY.ORG		Bid #		
Agenda Item Type	Contract Item		Requisition #		
Agenda Item Name	4490 CONTRACT WITH AVISTA CORPORATION				
Agenda Wording					
Contract with Avista Corporation (Spokane, WA) for the sale of electricity from the Spokane Waste to Energy Facility, November 17, 2014 to December 31, 2017. Estimated annual revenue \$6,000,000.00					
Summary (Background)					
This contract with Avista Corporation for the sale of electricity from the Waste to Energy Facility specifies \$48.71 per Mwh for the higher demand months of July through February, and \$38.46 per Mwh for lower demand months of March through June, increasing by 1.5% annually. The sale of this electricity will offset a significant portion of the costs of operating the Facility.					
Fiscal Impact			Budget Account		
Revenue	\$	6,000,000.00	#	4490-44110-37052-34330	
Select	\$		#		
Select	\$		#		
Select	\$		#		
Approvals			Council Notifications		
Dept Head	GIMPEL, KEN		Study Session		
Division Director	ROMERO, RICK		Other		
Finance	LESESNE, MICHELE		Distribution List		
Legal	WHALEY, HUNT		ttauscher@spokanecity.org		
For the Mayor	SANDERS, THERESA		cmarchand@spokanecity.org		
Additional Approvals					
Purchasing					

APPROVED BY SPOKANE CITY COUNCIL ON

11/3/2014
[Signature]
 SPOKANE CITY CLERK

**POWER PURCHASE AGREEMENT
BETWEEN
AVISTA CORPORATION
AND
CITY OF SPOKANE
(WASTE TO ENERGY PROJECT)**

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This Power Purchase Agreement (this "**Agreement**") is entered into as of the 23 day of October 2014 (the "**Effective Date**"), by and between the CITY OF SPOKANE (the "**City**"), State of Washington, a Washington municipal corporation, and AVISTA CORPORATION ("**Avista**") of Spokane, Washington, a corporation organized and existing under the laws of the State of Washington, hereinafter sometimes referred to collectively as the "**Parties**" and individually as a "**Party**."

WITNESSETH:

WHEREAS, the City owns and operates a waste to energy electric generating project located on approximately thirty-seven (37) acres of real property leased from the Spokane International Airport Board, located at 2900 S. Geiger Boulevard, Spokane, Washington, 99224 in Spokane County, Washington, which project is known as the Waste to Energy Project and has a nameplate capacity of 26 megawatts (the "**Project**"); and

WHEREAS, the City and Avista have entered into a Large Generator Interconnection Agreement (the "**Interconnection Agreement**") that provides for and governs the interconnection of the Project with Avista's electric system; and

WHEREAS, the City desires to sell and Avista desires to purchase electric power from the Project for a delivery term beginning on November 17, 2014;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth, the Parties agree as follows:

1. DEFINITIONS; INTERPRETATION

(a) **Definitions.** In addition to words defined elsewhere in this Agreement as signified by initial capitalization, whenever used in this Agreement, exhibits, and attachments hereto, the terms below shall have the following meanings:

(i) "**Affiliate**" means, with respect to any Person, any other Person (other than an individual) that, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. For this purpose, "control" means the direct or indirect ownership of 50 percent or more of the outstanding capital stock or other equity interests having ordinary voting power.

(ii) "**Agreement**": This power purchase agreement including all exhibits, attachments and modifications thereof.

(iii) "**Applicable Program**" means a domestic, international or foreign renewable portfolio standard or renewable energy standard, or renewable energy or emissions reduction program, scheme or organization, adopted by a Governmental Authority or otherwise, or other similar program with respect to which exists a market, registry or reporting for particular Environmental Attributes.

(iv) "**Bankrupt**" means, with respect to a Party or other entity, that such Party or other entity: (A) is dissolved (other than pursuant to a consolidation, amalgamation or

merger); (B) becomes insolvent or is unable to pay its debts or fails (or admits in writing its inability) generally to pay its debts as they become due; (C) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (D) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditor's rights, or a petition is presented for its winding-up or liquidation, which proceeding or proceeding is not dismissed, stayed or vacated within thirty (30) days thereafter; (E) commences a voluntary proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights; (F) seeks or consents to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all of its assets; (G) has a secured party take possession of all or substantially all of its assets, or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all of its assets; (H) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (A) to (G) inclusive; or (I) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

(v) **"Business Day"** means any day except a Saturday, Sunday or a Federal Reserve Bank holiday.

(vi) **"Defaulting Party"** shall have the meaning provided in Section 17(a) of this Agreement.

(vii) **"Delivered Net Output"**: shall have the meaning provided in Section 4(a) of this Agreement.

(viii) **"Delivery Term"** shall have the meaning provided in Section 3(b) of this Agreement.

(ix) **"Dispute Notice"** shall have the meaning provided in Section 12 of this Agreement.

(x) **"Effective Date"** shall have the meaning set forth in the first paragraph of this Agreement.

(xi) **"Environmental Attributes"**: means all certificates, credits, benefits, emissions reductions, environmental air quality credits and emissions reduction credits, offsets and allowances, howsoever entitled, resulting from the avoidance of the emission of any gas, chemical, or other substance attributable to the Project or the generation of energy by the Project, and the delivery of such energy to the electricity grid, and include any of the same arising out of any current or future legislation or regulation concerned with oxides of nitrogen, sulfur, or carbon, with particulate matter, soot, or mercury, or implementing the United Nations Framework Convention on Climate Change ("UNFCCC") or the Kyoto Protocol to the UNFCCC or crediting "early action" with a view to the UNFCCC, or laws or regulations involving or administered by the Clean Air

Markets Division of the Environmental Protection Agency or successor administrator (collectively with any state or federal entity given jurisdiction over a program involving transferability of Environmental Attributes, the "CAMD"), but specifically excluding investment tax credits, production tax credits, and cash grants associated with the construction or operation of the Project and other financial incentives in the form of credits, reductions, or allowances associated with ownership of the Project that are applicable to a state or federal income tax obligation, if any. Environmental Attributes also include the reporting rights or Renewable Energy Certificates ("RECs") associated with these Environmental Attributes. RECS are accumulated on a MWh basis and one REC represents the Environmental Attributes associated with one MWh of energy. Environmental Attributes do not include (i) any energy, capacity, reliability or other power attributes from the Project, (ii) fuel-related subsidies or "tipping fees" that may be paid to the City to accept certain fuels, or local subsidies received by the generator for the destruction of particular preexisting pollutants or the promotion of local environmental benefits, or (iii) emission reduction credits that the City procures from a source other than the Project and that are encumbered or used by the Project for compliance with local, state, provincial or federal operating or air quality permits.

(xii) "**Event of Default**" shall have the meaning provided in Section 17(a) of this Agreement.

(xiii) "**Facility Service Power**": means the electric energy generated and used by the Project during its operation to operate equipment that is auxiliary to primary generation equipment, including generator excitation, cooling or other operations related to the production of electric energy by the Project and to provide power to certain City owned loads for City consumption that are directly connected to the Project.

(xiv) "**FERC**": The United States Department of Energy, Federal Energy Regulatory Commission, or any other successor agency with substantially similar jurisdiction over Avista Corporation.

(xv) "**Force Majeure**" shall have the meaning provided in Section 8(a) of this Agreement.

(xvi) "**Forced Outage**": Any outage that either fully or partially curtails the electrical output of the Project caused by mechanical or electrical equipment failure, plant related structural failure, or unscheduled maintenance required to be performed to prevent equipment failure.

(xvii) "**Good Industry Practice**": Any of the practices, methods and acts engaged in or approved by a significant portion of the electric industry 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 good business practices, reliability, safety and expedition. Good Industry Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all

others, but rather to be acceptable practices, methods, or acts generally accepted in the region.

(xviii) **“Governmental Authority”**: Any federal, state or local government, political subdivision thereof or other governmental, regulatory, quasi-governmental, judicial, public or statutory instrumentality, authority, body, agency, department, bureau, or other entity with authority to bind a Party at law.

(xix) **“Governmental Rules”**: Any law, rule, regulation, ordinance, order, code, permit, interpretation, judgment, decree, directive, guideline, policy or similar form of decision of any Governmental Authority having the effect of law or regulation, *provided* that Governmental Rules shall not include any enactment or other action of the City undertaken for the purpose of abrogating, repudiating or unilaterally amending the Agreement, but this exception does not include any power of eminent domain that the City may lawfully exercise notwithstanding this Agreement.

(xx) **“Industrial Insurance Acts”** shall have the meaning provided in Section 10(b)(ii) of this Agreement.

(xxi) **“Interconnection Agreement”** shall have the meaning provided in the recitals of this Agreement.

(xxii) **“Loss”** shall have the meaning provided in Section 9(a) of this Agreement.

(xxiii) **“Major Maintenance”**: Maintenance work upon the Project that results in more than one generating unit not operating.

(xxiv) **“NERC”**: The North American Electric Reliability Corporation or its successor organization.

(xxv) **“Operating Year”**: The 12-month period from January 1 through December 31.

(xxvi) **“Pacific Prevailing Time”** or **“PPT”** means the prevailing time (*i.e.*, Standard Time or Daylight Savings Time) on any given day in the Pacific Time Zone.

(xxvii) **“Person”** means an individual, partnership, corporation, limited liability company, joint venture, association, trust, unincorporated organization, Governmental Authority, or other form of entity.

(xxviii) **“Point of Delivery”**: The point at which the Project and Avista’s electric system are connected, as shown in Exhibit C.

(xxix) **“Power Meter”** shall have the meaning provided in Section 4(a) of this Agreement.

(xxx) **“Premises”**: The site upon which the Project is located.

(xxxix) **“Project”**: The electric generating facility, including all equipment and structures necessary to generate and supply electric power.

(xxxii) **“Qualifying Facility”** means a generating facility which meets the requirements for Qualifying Facility status under the Public Utility Regulatory Policies Act of 1978 and part 292 of FERC’s Regulations, 18 C.F.R. Part 292, and which has self-certified or been granted certification of its QF status.

(xxxiii) **“Representatives”** means, with respect to a Party, such Party’s directors, officers, partners, members, employees, consultants, agents, advisors, successors and assigns, in each case with respect to the transactions contemplated by this Agreement.

(xxxiv) **“Term”** shall have the meaning provided in Section 3(a) of this Agreement.

(xxxv) **“Termination Date”** means the date on which this Agreement terminates or expires.

(xxxvi) **“WECC”**: The Western Electricity Coordinating Council or its successor organization.

(xxxvii) **“WUTC”**: The Washington Utilities and Transportation Commission or any other successor agency with substantially similar jurisdiction over Avista.

(b) **Interpretation.** Unless the context otherwise requires:

(i) Words singular and plural in number will be deemed to include the other and pronouns having masculine or feminine gender will be deemed to include the other.

(ii) Subject to Section 1(b)(vii), any reference in this Agreement to any Person includes its successors and assigns and, in the case of any Governmental Authority, any Person succeeding to its functions and capacities.

(iii) Any reference in this Agreement to any Section, Exhibit, Appendix or Annex means and refers to the Section contained in, or Exhibit, Appendix or Annex attached to, this Agreement.

(iv) Other grammatical forms of defined words or phrases have corresponding meanings.

(v) A reference to writing includes typewriting, printing, lithography, photography and any other mode of representing or reproducing words, figures or symbols in a lasting and visible form.

(vi) Unless otherwise expressly provided in this Agreement, a reference to a specific time for the performance of an obligation is a reference to that time in the place where that obligation is to be performed.

(vii) A reference to a Party to this Agreement includes such Party's successors and permitted assigns.

(viii) Reference to any gender includes each other gender.

(ix) Unless otherwise expressly provided in this Agreement, a reference to a document or agreement, including this Agreement, includes a reference to that document or agreement as modified, amended, supplemented or restated from time to time.

(x) References in this Agreement to "or" will be deemed to be disjunctive but not necessarily exclusive (*i.e.*, unless the context dictates otherwise, "or" will be interpreted to mean "and/or" rather than "either/or").

(xi) If any payment, act, matter or thing hereunder would occur on a day that is not a Business Day, then such payment, act, matter or thing will, unless otherwise expressly provided for herein, occur on the next Business Day.

(xii) "Hereunder," "hereof," "hereto" and words of similar import will be deemed references to this Agreement as a whole and not to any particular article, section or other provision hereof.

(xiii) "Including" (and with correlative meaning "include") means including without limitation on the generality of any description preceding such term.

(xiv) Relative to the determination of any period of time, "from" means "from and including," "to" means "to but excluding," and "through" means "through and including."

(c) **Technical Meanings.** Words not otherwise defined herein that have well known and generally accepted technical or trade meanings are used herein in accordance with such recognized meanings.

2. **REPRESENTATIONS AND WARRANTIES; COVENANTS**

(a) **Representations and Warranties.**

(i) The City represents that it is the sole owner of the Project. The City warrants and represents that: (a) the City has investigated and determined that it has authority to and is capable of performing the obligations hereunder and has not relied upon the advice, experience or expertise of Avista in connection with the transactions contemplated by this Agreement; and (b) the Project is a Qualifying Facility. The City further represents that this Agreement constitutes a legal, valid and binding obligation of the City enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, reorganization and other laws affecting creditors' rights generally, and with

regard to equitable remedies, to the discretion of the court before which proceedings to obtain same may be pending, has been approved by the City Council, and that the City's signatory is authorized to execute the Agreement.

(ii) Avista represents that this Agreement constitutes a legal, valid and binding obligation of Avista enforceable against it in accordance with its terms, subject to bankruptcy, insolvency, reorganization and other laws affecting creditors' rights generally, and with regard to equitable remedies, to the discretion of the court before which proceedings to obtain same may be pending, and that Avista's signatory is authorized to execute the Agreement. Avista makes no warranties, expressed or implied, regarding any aspect of the City's design, specifications, equipment or facilities, including safety, durability, reliability, strength, capacity, adequacy or economic feasibility, and any review, acceptance or failure to review the City's design, specifications, equipment or Project shall not be an endorsement or a confirmation by Avista. Avista assumes no responsibility or obligation with regard to any NERC or WECC reliability standard applicable to the Project.

(b) Covenants.

(i) The City will comply with all applicable Governmental Rules and will obtain and comply with applicable licenses, permits and approvals in the design, construction, operation and maintenance of the Project; and the Project will, during the Term of this Agreement, remain a Qualifying Facility as that term is used in 18 C.F.R Part 292. The Project's failure to maintain Qualifying Facility status during the Term will be a material breach by the City of this Agreement. Avista reserves the right to review the Project's Qualifying Facility status and associated support and compliance documents at any time during the Term.

(ii) Avista will use commercially reasonable efforts to obtain approval of the WUTC (without adverse amendment or adverse condition) of this Agreement, including preparation and filing all documentation to effect all necessary notices, reports and other filings and furnishing all information as may be required by any Governmental Authority in connection with the foregoing, in each case as promptly as practicable. The City will use its commercially reasonable efforts to assist Avista, as requested by Avista from time to time, in connection with obtaining such WUTC approval. Each of Avista and the City shall have the right to review in advance and, to the extent practicable, consult with the other on, and shall consider in good faith the views of the other in connection with, any filing to be made with, or written materials to be submitted to, any Governmental Authority in connection with the process of obtaining WUTC approval of this Agreement. In exercising the foregoing rights, each of Avista and the City shall act reasonably and as promptly as practicable.

3. TERM OF AGREEMENT; DELIVERY TERM

(a) The term of this Agreement (the "Term") shall commence on the date of this Agreement and shall terminate at 2400 PPT on December 31, 2017, unless terminated earlier in accordance with the terms and conditions of this Agreement.

(b) The period during which the City will deliver Delivered Net Output to Avista under this Agreement (the “**Delivery Term**”) will commence at 00:00:01 PPT on November 17, 2014 and continue through hour ending 2400 PPT on December 31, 2017. The Delivery Term will terminate effective immediately upon termination of the Term for any reason.

(c) Avista shall have the right to terminate this Agreement within one hundred and twenty (120) days following any order of the WUTC that disapproves this Agreement or disallows recovery in Avista’s retail rates of costs arising from purchases of electric power pursuant to this Agreement. If the WUTC issues an order that approves this Agreement subject to conditions that adversely affect the financial benefit of the Agreement to either Avista or the City, and that is not in form and substance substantially the same as that requested by Avista in the applicable filing, then the adversely affected Party may terminate this Agreement by giving notice to the other Party within one hundred and twenty (120) days after the issuance of such order. Within thirty (30) days after receipt of an order from the WUTC setting forth a disapproval, disallowance or conditional approval of this Agreement, Avista shall notify the City of such order and the possible effects thereof.

(d) Effective as of the Termination Date, the Parties will no longer be bound by the terms and conditions of this Agreement, except (a) to the extent necessary to enforce any rights and obligations of the Parties, including payment obligations, arising under this Agreement prior to expiration or termination of this Agreement, and (b) that the obligations of the Parties under Sections 6(h), 9, 10, 13 and 23 will survive the expiration or termination for any reason of this Agreement; *provided* that such obligations with respect to indemnification will continue only with respect to claims for indemnification based upon events or circumstances occurring or arising on or before the Termination Date.

4. PURCHASE AND SALE OF DELIVERED NET OUTPUT

(a) The City shall sell and deliver, and Avista shall purchase and receive, at the Point of Delivery the total amount of electric power that is generated by the Project (less Facility Service Power), and delivered by the City to Avista at the Point of Delivery during the Delivery Term (the “**Delivered Net Output**”). A power meter located at the Point of Delivery (installed at the City’s expense) (the “**Power Meter**”) shall register the Delivered Net Output on an hourly basis. The City shall deliver to Avista, and Avista shall receive, at all times all the Delivered Net Output. Notwithstanding any other provision of this Agreement, the City has no obligation to generate or sell or deliver, and Avista has no right to purchase or receive, any specified minimum amount of Delivered Net Output at any time during the Term, and the City’s sole obligation with respect to the sale and delivery of any output of the Plant and any power supply whatsoever under this Agreement is sell to Avista all Delivered Net Output on the terms and subject to the conditions of this Agreement.

(b) The Power Meter shall record electric power that flows from and to the Project, and from and to Avista’s electric system. Avista and the City both shall have the right to read and receive readings from the Power Meter. Avista shall read the meter and record the readings at least once per month. The Delivered Net Output in any month shall be calculated based on information from such meter readings. Monthly meter readings may be adjusted by prorating metered amounts to the number of days in such month.

(c) The Parties may, but are not obligated to, agree in writing that additional amounts of electric power made available from the Project as a result of modifications or enhancements of the Project shall be purchased and sold pursuant to this Agreement. The City may indicate its agreement to the purchase and sale of such additional amounts of electric power by a written administrative approval, executed by a lawfully authorized city official. For the avoidance of doubt, the City may not sell any electric power from the Project to any third party during the Delivery Term.

5. OPERATION OF PROJECT

(a) The City shall operate and maintain the Project in accordance with applicable Governmental Rules and Good Industry Practice.

(b) Interconnection of the Project with Avista's electrical system shall be governed by the separate Interconnection Agreement between the Parties which, following execution of the Interconnection Agreement, will be attached hereto as Exhibit C for informational purposes only.

(c) Either Party may interrupt, suspend or curtail delivery, receipt or acceptance of delivery of electric power at the Point of Delivery, if either Party reasonably determines that the failure to do so:

(i) Is reasonably likely to endanger any Person or property, or either Party's facilities or customers, or any electric system with which Avista's system is interconnected;

(ii) Is reasonably likely to cause, or contribute to, an imminent significant disruption of utility service to either Party's customers;

(iii) Is reasonably likely to interfere with any construction, installation, inspection, testing, repair, replacement, improvement, alteration, modification, operation, use or maintenance of, or addition to either Party's facilities;

(iv) Is reasonably likely to cause, contribute to, or necessitate operation of any of Avista's hydro electric projects in violation of any license or other regulatory requirements; or

(v) Is contrary to Good Industry Practice.

(d) A Party shall promptly notify the other Party in accordance with Exhibit A of the reasons for any such disconnection, interruption, suspension or curtailment. Such Party shall use its best reasonable efforts to mitigate and limit the duration of any such disconnection, interruption, suspension or curtailment.

6. PAYMENTS

(a) Avista shall prepare and submit to the City monthly statements during the Term based upon Delivered Net Output delivered to Avista during the previous month. Payments

owed by Avista shall be paid no later than the twentieth (20th) day of the month following the end of the monthly billing period or five (5) Business Days after the receipt of the applicable monthly statement, whichever is later. If the due date falls on a non-Business Day, then the payment shall be due on the next Business Day.

(b) If the City is obligated to make any payment to Avista under the terms of this Agreement, Avista shall invoice the City for such payment. The price of electric power delivered to the Project at the Point of Delivery at any time during this Agreement shall be determined in accordance with Avista's then-applicable retail tariff in effect at the time such electric power is delivered as such tariff may be changed or replaced from time to time, or separately negotiated agreement for service. The applicable retail tariff in effect at the time of the execution of this Agreement is Avista's Rate Schedule 21 for the State of Washington.

(c) Either Party may, if such Party is obligated to make any payment or refund to the other Party, net and set off such payment or refund amount against any current or future payments due to the other Party under this Agreement. Avista shall prepare and present a single net bill reflecting the offset of sums owed between the Parties as a result of the sale and delivery of electric power during a month. The Party owing funds in accordance with the net bill shall pay the other Party no later than the twentieth (20th) day of the month following the end of the monthly billing period or five (5) Business Days after the receipt of a monthly statement, whichever is later. If the due date falls on a non-Business Day, then the payment shall be due on the next Business Day.

(d) Avista shall pay the City monthly for Delivered Net Output at the rates set forth in Exhibit B.

(e) If either Party is obligated to make any payment to the other Party under the terms of this Agreement for any reason other than the sale and delivery of electric power, the Party to which such payment is due shall bill the Party from which such payment is due. The Party from which such payment is due shall pay the other Party no later than the twentieth (20th) day of the month following the end of the applicable monthly billing period or five (5) Business Days after the receipt of the applicable monthly statement, whichever is later. If the due date falls on a non-Business Day, then the payment shall be due on the next Business Day. Overdue payments will accrue interest in accordance with Section 6(i) from the due date to the date of payment.

(f) All payments shall be made by ACH or wire transfer in accordance with further agreement of the Parties.

(g) A Party may in good faith dispute the correctness of any invoice (or any adjustment to any invoice) rendered under this Agreement, or adjust any invoice for any arithmetic or computational error, at any time within twelve (12) months following the date the invoice (or invoice adjustment) was rendered. In the event that either Party disputes any invoice or invoice adjustment, such Party will nonetheless be required to pay the full amount of the applicable invoice or invoice adjustment (except any portions thereof which are manifestly inaccurate or are not reasonably supported by documentation, payment of which amounts may be withheld subject to adjustment as hereinafter set forth) on the applicable payment due date, and to give notice of the objection to the other Party. Any dispute with respect to any invoice or

invoice adjustment will be in writing and will state the basis for the dispute or adjustment. Upon resolution of the dispute, any required payment will be made within two (2) Business Days of such resolution, together with interest accrued at the Interest Rate from the due date to the date paid. Any Party receiving an inadvertent overpayment will return such overpayment upon request or will deduct such overpayment from subsequent payments, in each case together with interest accrued at the Interest Rate from the date of such overpayment to the date repaid or deducted by the Party receiving such overpayment. Each Party hereby waives any and all rights that it may have to dispute any invoice or invoice adjustment unless such Party notifies the other Party in accordance with this Section 6(g) within twelve (12) months after the invoice is rendered or the applicable adjustment to the invoice is made.

(h) Each Party (and its Representatives) will have the right, at such Party's sole expense, during normal working hours and upon reasonable prior written notice to the other Party, to examine or make copies of the records and data of the other Party relating to this Agreement (including all records and data relating to or substantiating any charges paid by or to either Party and including metering records of the amount of the Delivered Net Output) to the extent reasonably necessary to verify the accuracy of any statement, charge or computation made pursuant to this Agreement. If any such examination reveals any inaccuracy in any statement, the necessary adjustments in such statement and the payments thereof will be made promptly and will bear interest calculated at the Interest Rate from the date the overpayment or underpayment was made until paid; *provided, however*, that no adjustment for any statement or payment will be made unless objection to the accuracy thereof was made prior to the lapse of twelve (12) months from the rendition thereof, and thereafter any objection will be deemed waived. This Section 6(h) will survive any termination of this Agreement for a period of one (1) year from the date of such termination for the purpose of such statement and payment objections.

(i) In addition to the remedies set forth in this Agreement, any amounts owing after the due date specified in this Agreement will be subject to interest in the amount of one percent (1%) per month, not to exceed the maximum rate allowed by the law, multiplied by the unpaid balance.

7. METERING

(a) Avista shall be responsible for any meter readings required by this Agreement.

(b) As of the Effective Date the City owns the Power Meter. The Power Meter shall be used to determine the billing hereunder, and the meter shall be located at the Point of Delivery as specified in Exhibit C. The City shall reimburse Avista's reasonable costs, if any, for any replacement of the Power Meter and any communications facilities necessary to deliver information from the Power Meter to Avista's system operations center. For any planned replacement of the Power Meter and related communications facilities by Avista for which the City bears cost responsibility pursuant to this Agreement, Avista shall, prior to commencing work on any such replacement, consult with the City regarding Avista's planning, design, operation, maintenance, repair and replacement of such Power Meter and communications facilities, including providing estimated costs, with the City. Avista shall use its best efforts to minimize such costs. If requested by the City, Avista shall provide copies of applicable test and

calibration records and calculations pertaining to the Power Meter. Avista shall permit a representative of the City to be present at all times the Power Meter is being tested.

(c) Notwithstanding the ownership of the Power Meter, Avista agrees to test the Power Meter in accordance with, and at such intervals as are consistent with, Avista's normal procedures, and in any event not less than once every two years. Avista shall conduct additional tests of the Power Meter if requested by the City, and the City shall reimburse Avista reasonable costs not to exceed \$1,000 per test, *provided* that the City may request an additional meter test at Avista's expense if the last meter test occurred more than twelve (12) months prior to the City's request. In addition, Avista shall not charge for any meter test requested by the City if such test shows that Avista's meter operates outside of accepted tolerances as determined by Avista in accordance with Good Industry Practice.

(d) Adjustments shall be made in meter readings and billings for errors in a meter reading billing discovered within twelve (12) months of the error. For purposes of adjusting meter readings and billings, in the event that it cannot be determined when the Power Meter commenced to malfunction, it shall be assumed that the Power Meter commenced to malfunction on a date which is the most recent of: (i) twelve (12) months prior to the date of discovery of the malfunction; or (ii) one half of the interval of time that elapsed between the date of the last meter test and the date of the discovery of the malfunction.

8. FORCE MAJEURE

(a) Neither Party shall be liable to the other Party for, or be considered to be in breach of or default under this Agreement, on account of any failure to perform or delay in performance that is attributable to any of the following events, which event or circumstance was not anticipated or reasonably foreseeable as of the Effective Date ("Force Majeure"):

(i) Any cause or condition that is beyond such Party's reasonable control and that is not the result of such Party's negligence and that, by the exercise of due diligence, the Party claiming Force Majeure is unable to overcome or avoid or cause to be avoided, including the following (*provided, however*, that the existence of the following factors will not be sufficient to conclusively or presumptively prove the existence of a Force Majeure absent a showing of other facts and circumstances that in the aggregate with such factors establish that a Force Majeure as defined in the foregoing clauses of this Section 8(a)(i) has occurred): fire, flood, earthquake, volcanic activity, wind, drought and other acts of the elements; court order and act of civil, military or Governmental Authority; strike, lockout and other labor dispute; riot; insurrection, sabotage or war; federal, state, or other governmental laws, orders, decrees, restraints, or regulations; Forced Outage; breakdown of or damage to facilities or equipment; or electrical disturbance originating in or transmitted through such Party's electric system or any electric system with which such Party's system is interconnected; or

(ii) Any action taken by such Party which is, in the reasonable good faith judgment of such Party, necessary or prudent to protect the operation, performance, integrity, reliability or stability of such Party's facilities or any electric system with which

such Party's electric system is interconnected, whether such actions occur automatically or manually.

(b) Nothing contained in this section shall require any Party to settle any strike, lockout or other labor dispute. In the event that any Force Majeure occurrence prevents performance by a Party under this Agreement, the non-performing Party shall provide the other Party written notice thereof within seven (7) days after the occurrence of the Force Majeure event. Such notice shall include the particulars of the occurrence, assurances that suspension of performance is of no greater scope and of no longer duration than is required by the Force Majeure and that the nonperforming Party is using its commercially reasonable best efforts to remedy its inability to perform. The non-performing Party shall resume performance of the obligations prevented by the Force Majeure occurrence with all reasonable dispatch. The performing Party shall not be required to perform or resume performance of its obligations to the non-performing Party corresponding to the obligations of the performing Party excused by the Force Majeure occurrence.

(c) Force Majeure does not include changes in the ownership, occupancy, or operation of the Project or Avista that occur because of normal business occurrences which include but are not limited to: changes in business economic cycles; recessions; bankruptcies; tax law changes; sales of businesses; closure of businesses; changes in production levels; and changes in system operations.

(d) Force Majeure does not excuse any Party from making payments of money due and payable under this Agreement.

(e) Notwithstanding anything herein, the City shall not claim Force Majeure as a result of any Governmental Rules adopted by the City.

(f) Force Majeure will not be based on (i) the loss of Avista's markets, or (ii) Avista's inability economically to use or resell any Delivered Net Output purchased hereunder; *provided, however*, that notwithstanding anything herein, Avista may claim Force Majeure in the event that Avista ceases (for any reason that is beyond Avista's reasonable control and that is not the result of Avista's negligence and that, by the exercise of due diligence, Avista is unable to overcome or avoid or cause to be avoided) providing electric power to a substantial portion of its retail electric load within the City of Spokane.

(g) The Party claiming Force Majeure shall use its commercially reasonable best efforts to mitigate and limit the duration of any Force Majeure event.

9. INDEMNITY

(a) The City shall indemnify, defend and hold harmless Avista and its Representatives from and against any and all losses, expenses, liabilities, claims or actions (hereafter "Loss") based upon or arising out of bodily injuries or damages to Persons, including death resulting therefrom, or physical damages to or losses of property caused by, arising out of or sustained in connection with (i) the construction, operation or maintenance of the Project, (ii) the City's negligence or intentional misconduct, or (iii) any breach of this Agreement by the City. Avista shall indemnify, defend and hold harmless the City and its Representatives from

and against and from any Loss caused by, arising out of or sustained in connection with (i) the construction, operation or maintenance of Avista's electrical system, (ii) Avista's negligence or intentional misconduct, or (iii) any breach of this Agreement by Avista. In the event that any such Loss is caused by the negligence of both the City and Avista, including their employees, agents, suppliers and subcontractors, the Loss shall be borne by each of the City and Avista in the proportion that its respective negligence bears to the total negligence causing the Loss. To the extent that a Loss is caused by, results from or arises out of or in connection with any matter that is addressed in the Interconnection Agreement, each Party's rights and obligations with respect to such Loss shall be subject to and governed exclusively by the terms and conditions of the Interconnection Agreement, including any and all limitations of liability, releases and waivers appearing in such agreement.

(b) THE CITY AND AVISTA REPRESENT AND WARRANT THAT THE TERMS AND CONDITIONS OF THE FOREGOING INDEMNITY PROVISIONS ARE THE SUBJECT OF MUTUAL NEGOTIATION BY THE PARTIES, AND ARE SPECIFICALLY AND EXPRESSLY AGREED TO IN CONSIDERATION OF THE MUTUAL BENEFITS DERIVED UNDER THE TERMS OF THE AGREEMENT.

10. LIMITATION OF LIABILITY

(a) Limitation of Liability. NOTWITHSTANDING ANYTHING CONTAINED TO THE CONTRARY IN THIS AGREEMENT, THE CITY AND AVISTA AGREE THAT THE RECOVERY BY EITHER PARTY OF ANY DAMAGES SUFFERED OR INCURRED BY IT AS A RESULT OF ANY BREACH BY THE OTHER PARTY OF ANY OF ITS OBLIGATIONS UNDER THIS AGREEMENT SHALL BE LIMITED TO THE ACTUAL DAMAGES SUFFERED OR INCURRED BY THE NON-BREACHING PARTY OF ITS OBLIGATIONS HEREUNDER. IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY CONSEQUENTIAL, EXEMPLARY, SPECIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES (INCLUDING ANY DAMAGES ON ACCOUNT OF LOST PROFITS OR OPPORTUNITIES OR BUSINESS INTERRUPTION AND THE LIKE), WHETHER BY STATUTE, IN TORT OR UNDER CONTRACT, UNDER ANY INDEMNITY PROVISION OR OTHERWISE; *PROVIDED, HOWEVER*, THAT THE FOREGOING WILL NOT IN ANY EVENT LIMIT THE LIABILITY OF EITHER PARTY TO THE OTHER UNDER SECTION 9 FOR OR WITH RESPECT TO THIRD-PARTY CLAIMS.

(b) Compliance with Express Negligence Rule; RCW 4.24.115 Acknowledgement and Waiver.

(i) To the fullest extent permitted by applicable law, all releases, disclaimers, limitations on liability, and indemnities in this Agreement, including those in this Section 10, shall apply even in the event of the sole, joint, or concurrent negligence, strict liability, or fault of the party whose liability is released, disclaimed, limited, or indemnified.

(ii) Notwithstanding the foregoing, with respect to any and all claims against an indemnified Party by any Representative of an indemnifying Party, the indemnification obligations of the indemnifying Party herein shall not be limited in any

way by any limitation on the amount or type of damages, compensation, or benefits payable by or for the indemnifying Party under applicable law, including any workers compensation and industrial insurance acts, disability benefit acts, or other employee benefits acts (including the Washington State Industrial Insurance Act, RCW Title 51) (collectively, the "**Industrial Insurance Acts**").

(iii) EACH OF THE PARTIES HEREBY SPECIFICALLY AND EXPRESSLY WAIVES ANY AND ALL IMMUNITY TO WHICH SUCH PARTY MAY BE ENTITLED UNDER THE INDUSTRIAL INSURANCE ACTS (INCLUDING SUCH PARTY'S IMMUNITY UNDER THE INDUSTRIAL INSURANCE ACT (RCW TITLE 51) AND ANY EQUIVALENT LAWS), TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, INCLUDING RCW 4.24.115, AND EXPRESSLY AGREES TO ASSUME POTENTIAL LIABILITY, EXPENSES AND DAMAGES (INCLUDING ATTORNEYS' FEES AND COSTS) FOR ACTIONS BROUGHT AGAINST AN INDEMNIFIED PARTY BY THE INDEMNIFYING PARTY'S REPRESENTATIVES; *PROVIDED, HOWEVER*, THAT THE INDEMNIFYING PARTY'S WAIVER OF IMMUNITY BY THE PROVISIONS OF THIS SECTION 10 EXTENDS ONLY TO CLAIMS AGAINST THE INDEMNIFYING PARTY BY OR ON BEHALF OF THE INDEMNIFIED PARTY UNDER OR PURSUANT TO THIS AGREEMENT, AND DOES NOT INCLUDE ANY CLAIMS MADE BY THE INDEMNIFYING PARTY'S REPRESENTATIVES DIRECTLY AGAINST THE INDEMNIFYING PARTY. EACH PARTY ACKNOWLEDGES AND AGREES THAT THE FOREGOING WAIVER HAS BEEN SPECIFICALLY AND MUTUALLY NEGOTIATED BY THE PARTIES TO THIS AGREEMENT AND EACH PARTY HAS HAD THE OPPORTUNITY, AND HAS BEEN ENCOURAGED, TO CONSULT WITH INDEPENDENT COUNSEL REGARDING THIS WAIVER.

(iv) Notwithstanding the foregoing or anything to the contrary set forth in this Agreement, the Parties agree that if the provisions of RCW 4.24.115 apply to any claim by an indemnified Party against an indemnifying Party under this Agreement, then, with respect to such claim, (A) in no event shall the indemnifying Party be obligated to indemnify the indemnified Party for damages arising out of bodily injury to Persons or damage to property resulting from the sole negligence of the indemnified Party or its Representatives, and (B) if indemnification is sought for damages arising out of bodily injury to Persons or damage to property resulting from the concurrent negligence of the indemnifying Party (or its Representatives) and the indemnified Party (or its Representatives), the indemnifying Party shall indemnify the indemnified Party for such damages only to the extent of the negligence of the indemnifying Party or its Representatives.

11. INSURANCE

(a) Business Insurance. Prior to operating the Project, the City, at his own cost, shall obtain and maintain the following insurance in force over the Term of this Agreement and shall provide certificates of all insurance policies. Avista's acceptance of the certificate of insurance is not intended to, and will not reduce, limit, affect, or modify the primary obligations and liabilities of the City under the provisions of this Agreement. The City must provide notice

of cancellation or notice of change in policy terms at least thirty (30) days prior to any change or termination of the policies.

(b) **General Liability.** The City shall carry and maintain comprehensive general liability insurance in a form acceptable to Avista with coverage of not less than \$10,000,000 per occurrence, including coverage of bodily injury, property damage liability, and contractual liability specifically related to the indemnity provisions of this Agreement. The deductible will not exceed the City's financial ability to cover claims.

(c) **Property Insurance.** The City shall carry and maintain property insurance for the full replacement value of the Project in a form acceptable to Avista, a deductible not to exceed the City's financial ability.

(d) **Qualifying Insurance.** The insurance coverage required by this Section 11 must be obtained from an insurance carrier licensed to conduct business in the state of Washington, must be acceptable to Avista, such acceptance not to be unreasonably withheld, but in no event have, as of the date of placement of such coverage during each year during the Term, less than an A.M. Best Rating of A-, Class VIII. The policies required under this Agreement must include (i) provisions or endorsements naming Avista and its directors, officers and employees as additional insureds, (ii) Avista as a loss payee as applicable, (iii) a cross-liability and severability of interest clause, and (iv) provisions such that the policy is primary insurance with respect to the interests of Avista and that any other insurance maintained by Avista is excess and not contributory.

12. **ENVIRONMENTAL ATTRIBUTES**

If at any time during the Term either Party provides written notice to the other Party asserting, on the basis of any applicable federal or state law or any decision by any Governmental Authority of competent jurisdiction, that the Party providing such notice is the owner of any Environmental Attributes generated by or otherwise associated with the Project, and if the other Party, in its sole discretion, determines that such ownership does or would materially adversely affect such Party, such Party may, by delivering written notice of such determination to the other Party (a "Dispute Notice") within thirty (30) days after notice of such ownership claim, require that the Parties enter into good faith negotiations concerning the disposition of the Environmental Attributes generated by or associated with the Project. If the Parties are unable, within a period of thirty (30) days following delivery of any Dispute Notice, to reach a mutually acceptable agreement regarding such disposition and consideration, either Party will be entitled, at any time within thirty (30) days after expiration of such period, to deliver notice of termination of this Agreement to the other Party. This Agreement and the Term will terminate effective one hundred and eighty (180) days after delivery of any such termination notice, and neither Party will have any liability to the other Party for or as a result of such termination. Notwithstanding the foregoing, if a Party asserts that it is the owner of any Environmental Attributes under this Section 12, any failure of the other Party to deliver a Dispute Notice within thirty (30) days after notice of such ownership claim shall not constitute a waiver of such Party's right at any time subsequently to provide a Dispute Notice if such Party concludes, in its sole discretion, that such ownership does or would materially affect such Party; *provided, however*, that any such subsequent Dispute Notice shall be given prospective effect only and shall not be permitted to claim or dispute ownership of any Environmental Attributes

for any period prior to the date of such Dispute Notice. The delivery at any time of any such subsequent Dispute Notice shall give rise to the same negotiation obligations and termination rights as set forth above with respect to any Dispute Notice delivered within thirty (30) days after initial notice of any Environmental Attributes ownership claim.

13. ARBITRATION

Each Party shall strive to resolve any and all differences during the term of the Agreement. If a dispute cannot be resolved, either Party may submit the dispute to binding arbitration. The arbitration shall be conducted pursuant to the Uniform Arbitration Act, Title 7, Chapter 9 of the Washington code, as the same may have been or may be amended.

14. ASSIGNMENT

(a) **Required Consent.** Neither Party shall assign this Agreement or any of its rights, interests or obligations hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed; *provided, however,* that a Party may, without the consent of the other Party, and by providing prior reasonable notice under the circumstances to the other Party, assign, transfer, pledge or otherwise dispose of its rights and interests under this Agreement to: (i) any Person in connection with an assignment of the Agreement for financing or refinancing purposes; (ii) any entity created to operate the Project; or (iii) any Affiliate of such Party, so long as the creditworthiness of such Affiliate is at least equal to that of the assigning Party.

(b) **Continuing Obligations.** Any assignments authorized as provided for in this Section 14 shall not operate to relieve the Party assigning this Agreement or any of its rights, interests or obligations hereunder of the responsibility of full compliance with the requirements of this Agreement unless: (i) the other Party consents, such consent not to be unreasonably withheld; and (ii) the assignee agrees in writing to be bound by all of the obligations and duties of the assigning party provided for in this Agreement.

(c) **Reimbursement of Costs.** Either Party shall, upon request from the other Party, execute and deliver such documents as may be reasonably necessary to accomplish any assignment, transfer, pledge or disposition of rights permitted under this Section 14, so long as the rights of the non-assigning Party are not altered, amended, diminished or otherwise impaired, and so long as the requesting Party reimburses the other Party for all reasonable costs incurred in connection with the review, execution or delivery of such documents.

(d) **Approval by the City of Assignments.** The City may approve assignments under this Section 14 by written consent of the Mayor.

(e) **Binding Agreement.** This Agreement and all of the provisions hereof are binding upon, and inure to the benefit of, the Parties and their respective successors and permitted assigns.

15. NO UNSPECIFIED THIRD PARTY BENEFICIARIES

Except as specifically provided in Section 9, Section 10 or otherwise in this Agreement, there are no third party beneficiaries of this Agreement. Nothing contained in this Agreement is intended to confer any right or interest on anyone other than the Parties, and their respective successors, heirs and assigns permitted under Section 14.

16. NO TRANSFER RIGHTS

Nothing in this Agreement shall be construed as granting the City any right of access, or any other rights, to Avista's distribution or transmission systems.

17. DEFAULT

(a) An "Event of Default" shall mean, with respect to a Party (a "Defaulting Party"), the occurrence of any of the following:

(i) the failure to make, when due, any payment required pursuant to this Agreement if such failure is not remedied within three (3) Business Days after delivery of written notice;

(ii) any representation or warranty made by such Party herein is false or misleading in any material respects when made or when deemed made or repeated;

(iii) the failure to perform any material covenant or obligation set forth in this Agreement (except to the extent constituting a separate Event of Default) if such failure is not remedied in accordance with Section 17(b), below;

(iv) such Party becomes Bankrupt; or

(v) such Party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such Party under this Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonable satisfactory to the other Party.

(b) In the Event of Default, the following shall apply:

(i) The non-defaulting Party shall give written notice to the Defaulting Party of the Event of Default in accordance with this Agreement.

(ii) Except for an Event of Default that arises from failure to make money payments or from a Party becoming Bankrupt, if, after twenty (20) days following receipt of such notice, the Defaulting Party has not cured the Event of Default, the non-defaulting Party may, at its option, terminate this Agreement; *provided, however*, if the defaulting Party, within such twenty (20)-day period, commences and thereafter proceeds with all due diligence to cure such default, such twenty (20)-day period shall be extended

up to six (6) months after written notice to the defaulting Party, as may be necessary to cure the event of default with all due diligence. For an Event of Default that arises from the failure to make money payments, the non-defaulting Party may, at its option, terminate this Agreement if the Defaulting Party shall have failed to cure the failure to pay within three (3) Business Days following receipt of notice of such failure. For an Event of Default that arises from a Party becoming Bankrupt, the non-defaulting Party may, at its option, immediately terminate this Agreement upon notice to the Defaulting Party.

(iii) Upon the Event of Default and an expiration of any period to cure granted herein, the non-defaulting Party may, but has no obligation, to terminate this Agreement effective upon notice to the Defaulting Party and may exercise all other rights and remedies available to the non-defaulting Party under applicable law. On behalf of the City, such actions may be accomplished by the Mayor. Whether or not the non-defaulting Party elects to terminate this Agreement, it may, in addition to other remedies provided for herein, pursue such remedies as are available at law or in equity including suspension of its performance so long as the Event of Default is continuing and has not been cured.

(c) Any right or remedy afforded to either Party under any provision of this Agreement on account of the breach or default by the other Party is in addition to, and not in lieu of, all other rights or remedies afforded to such Party under any other provisions of this Agreement, by law or otherwise on account of the breach or default.

18. GOVERNMENTAL AUTHORITY

This Agreement is subject to all applicable Governmental Rules. All Governmental Rules now or hereafter in effect that are required to be incorporated in agreements of this character are by this reference incorporated in this Agreement.

19. SEVERAL OBLIGATIONS

Except where specifically stated in this Agreement to be otherwise, the duties, obligations and liabilities of the Parties are intended to be several not joint or collective. This Agreement shall not be interpreted or construed to create an association, joint venture or partnership between the Parties or to impose any partnership obligation or liability upon either Party. Each Party shall be individually and severally liable for its own obligations under this Agreement. Further, neither Party shall have any rights, power or authority to enter into any agreement or undertaking for or on behalf of, to act as to be an agent or representative of, or to otherwise bind the other Party.

20. IMPLEMENTATION

Each Party shall take such action (including the execution, acknowledgement and delivery of documents) as may reasonably be requested by the other Party for the implementation or continuing performance of this Agreement.

21. NON-WAIVER

The failure of either Party to insist upon or enforce strict performance by the other Party of any provision of this Agreement or to exercise any right under this Agreement shall not be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provision or right in that or any other instance; rather, the same shall be and remain in full force and effect.

22. ENTIRE AGREEMENT AND AMENDMENT

This Agreement together with its exhibits constitutes the entire agreement of the Parties hereto and supersedes and replaces any prior agreements or understandings between said Parties, entered into for the same or similar purposes. No change, amendment or modification of any provision of this Agreement shall be valid unless set forth in a written amendment to this Agreement signed by both Parties.

23. GOVERNING LAW AND VENUE

This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington, without reference to conflict of laws provisions that would result in the application of the laws of any other jurisdiction. Any action at law or in equity to enforce the terms and conditions of this Agreement shall, unless subject to the exclusive jurisdiction of the WUTC, be brought in Spokane County, Washington.

24. COMPLIANCE WITH LAWS

Both Parties shall comply with all applicable laws and regulations of governmental agencies having jurisdiction over the Project and the operations of the Parties. The City shall obtain all required approvals or authorization from governmental agencies having jurisdiction over the sale of electric power from the Project.

25. FORWARD CONTRACT; FORWARD AGREEMENT

The Parties acknowledge and agree that this Agreement constitutes a "forward contract" and a "forward agreement" within the meaning of the United States Bankruptcy Code.

26. NOTICES

All notices, requests, statements or payments will be made in writing except where this Agreement expressly provides that notice may be made orally. Notices required to be in writing will be delivered by hand delivery, overnight delivery, or facsimile. Notice by facsimile will (where confirmation of successful transmission is received) be deemed to have been received on the day on which it was transmitted (unless transmitted after 5:00 p.m. at the place of receipt or on a day that is not a Business Day, in which case it will be deemed received on the next Business Day). Notice by hand delivery or overnight delivery will be deemed to have been received when delivered. When notice is permitted to be provided orally, notice by telephone will be permitted and will be deemed to have been received at the time the call is received.

To Avista: Director, Power Supply
Avista Corporation
P.O. Box 3727
MSC-7
Spokane, Washington 99220-3727
Facsimile No.: (509) 495-4272

To the City: Chuck Conklin, Director
City of Spokane
Spokane Waste to Energy Project
808 W. Spokane Falls Blvd., 6th Floor
Spokane, WA 99201
Facsimile No.: (509) 625-6537

with a copy (which shall not constitute notice) to:

City Attorney
Office of the City Attorney
City of Spokane
808 W. Spokane Falls Blvd.
5th Floor, Municipal Bldg.
Spokane, Washington 99201-3326
Facsimile No.: (509) 625-6277

Changes in persons or addresses for submittal of written notices by a Party to this Agreement shall be made in writing to the other Party and delivered in accordance with this Section 26. Any oral notice required hereby, which affects the payments to be made hereunder shall be confirmed in writing as promptly as practicable after the oral notice is given. Exhibit A, herein, shall govern oral communications between the Parties.

27. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be an original but all of which, taken together, shall constitute only one legal instrument. It shall not be necessary in making proof of this Agreement to produce or account for more than one counterpart.

28. EXHIBITS

This Power Purchase Agreement includes the following exhibits, which are attached and incorporated by reference herein:

Exhibit A	-	Communications
Exhibit B	-	Payment Schedule
Exhibit C	-	Interconnection Agreement

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the first date herein-above set forth:

CITY OF SPOKANE

AVISTA CORPORATION

By: *David A. Condon*

By: *Jason R. Thackston*

(Type Name) David A. Condon
Mayor
City of Spokane
Title: _____

(Type Name) _____
Jason R. Thackston
Senior VP, Energy Resources
Title: _____

Date: November 6, 2014

Date: 10/23/14

Attest: *Seri Spinks*
City Clerk

Approved as to form: *[Signature]*
Assistant City Attorney



Exhibit A

Communications

**** This listing may need to be updated effective November 17, 2014**

A-1. Verbal Communications

All communications between the City and Avista referred to in the Agreement shall be done verbally by notifying the following parties:

(a) Pre-Schedule (5:30 am to approximately 1:30 pm on normal business days):

Avista Pre-Scheduler (509) 495-4911
 Alternate Phone Number (509) 495-4073

the City Business Phone (509) 625-6524
 Alternate Phone Number (509) 625-6523 688-4657

(b) Real-Time Schedule (available 24 hours per day):

Avista Real-Time Scheduler (509) 495-8534

the City Business Phone (509) 625-6524
 Alternate Phone Number (509) 625-6523

(c) During normal business hours, all verbal communications relating to interruptions and outages:

Avista System Operator (509) 495-4105
 Alternate Phone Number (509) 495-4934

the City Business Phone (509) 625-6524624-6575
 Alternate Phone Number (509) 625-6523

(d) Outside of normal business hours (nights, weekends, and holidays), all verbal communications relating to interruptions and outages shall take place between the following personnel:

Avista System Operator (509) 495-4105
 Alternate Phone Number (509) 495-4934

the City Business Phone (509) 625-6524
 Alternate Phone Number (509) 625-6523

A-2. The City shall notify Avista's system operator, as soon as is practical, whenever the Project is or is expected to be brought on line, or taken off line.

A-3. Changes in persons or phone numbers for verbal communications by a Party to this Agreement may be made verbally to the other Party in accordance with this Exhibit but shall be confirmed in writing as an amended Exhibit A. A copy of said amended Exhibit A shall be mailed or delivered to the representatives of the Parties designated in Section 26.

Exhibit B

Power Purchase Payment Rates

For the period November 17, 2014 through December 31, 2017 Avista agrees to buy the Delivered Net Output from the City's Waste to Energy Project at the following monthly rates in dollars per megawatt-hour (\$/MWh):

Year	March – June (\$/MWh)	July – February (\$/MWh)
2014		\$48.71
2015	\$38.46	\$49.44
2016	\$39.03	\$50.18
2017	\$39.61	\$50.93

Exhibit C

Interconnection Agreement

Non-Confidential Attachment D

**Avista Corporation
Monthly Power Cost Deferral Report
Month of October 2014**

Long-Term Power Transaction

**CONTRACT
FOR
SALE OF OUTPUT FROM THE ROCKY REACH
PROJECT AND ROCK ISLAND PROJECT**

Slice Product 19

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Appendices

Appendix A – Output, Scheduling, Planning and Transmission

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**CONTRACT
FOR
SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND ROCK ISLAND
PROJECT**

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

AVISTA CORPORATION

This contract is entered into as of October 2, 2014 (“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. 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 through HE 2400 (midnight) Pacific Prevailing Time “PPT” December 31, 2015. 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 or succeeded 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 and the Rock Island Project as adjusted for limitations and obligations in accordance with Appendix A.

“Collateral Annex” means the agreement entered into between the Parties entitled Collateral Annex.

“Contract” shall mean this CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND ROCK ISLAND PROJECT SLICE PRODUCT 19 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 Business Practices” shall mean those policies, procedures, and business practices of the District that are in effect and amended from time to time.

“District Slice Operating Instructions” shall mean those instructions and details pertaining to the Rocky Reach Project and the Rock Island Project Output and provisions contained in this Contract adopted by the District from time to time.

“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, the PEAK RC 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; or (v) environmental and water quality standards and requirements.

“Dynamic Transfer Agreement” means a dynamic scheduling, pseudo tie or other agreement entered into by the Purchaser and the District.

“Energy” means the energy production, expressed in megawatt hours, of the Rocky Reach Project and the Rock Island Project 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 all other environmental characteristics, credits, allowances, claims, reductions, offsets, and benefits associated with the generation of electricity from a renewable resource of the Rocky Reach Project and the Rock Island Project, except any energy, capacity, reliability or other power attributes used to provide electricity service as defined in this Contract. Environmental Attributes, also known as non-power attributes, include but are not limited to: (1) facility’s fuel type, geographic location, vintage; (2) 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; and (3) 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, or otherwise by law, to absorb infra-red radiation in the atmosphere and contribute to the actual or potential altering of the Earth's climate by trapping heat in the atmosphere. The owner of the Environmental Attributes shall without limitation retain all reporting rights and use of these avoided emissions and/or renewable resources in any present or future federal or state compliance or voluntary program(s)

“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.

“Incremental Efficiency Gains” means the Energy derived from any improvements or efficiency upgrades at Rocky Reach Project and the Rock Island Project completed after January 1, 1994, including but not limited to the installation or modification of equipment and structures or operating protocols, which the District determines result in improved or increased efficiency or capacity and/or produces incremental electricity.

“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 Rock Island Project, 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 Rock Island Project, as applicable, in each case to the extent described in and determined pursuant to Appendix A hereof. The Purchaser’s Output will be made available by the District pursuant to this Contract from that portion of the Rocky Reach Project and the Rock Island Project that does not include Incremental Efficiency Gains. Output includes 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 or succeeded from time to time.

“PEAK RC” means the Peak Reliability organization that is registered for and fulfills the duties of the Reliability Coordinator and the Interchange Authority, as defined by NERC, and as delegated by WECC for the Western Interconnection.

“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.

“Purchase Price” has the meaning set forth in Section 5.

“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 of this Contract. The improvements and upgrades are included in this definition only as related to the equivalent amount of Output to be delivered pursuant to the definitions in Section 3 of this Contract.

“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. The improvements and upgrades are included in this definition only as related to the equivalent amount of Output to be delivered pursuant to the definitions in Section 3 of this Contract.

“Slice Contract” means any Contract(s) for Sale of Output from the Rocky Reach Project and the Chelan Power System, Contract(s) for Sale of Output from the Rocky Reach Project and Rock Island Project and/or Contract(s) for Sale of Output from the Chelan Power System executed by the Parties.

“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, storm, 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.

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 measured by and equivalent 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 Period for Slice Product. The Purchaser's Output Percentage shall be measured by and equivalent to four percent (4.0 %) of the Output from Rocky Reach and Rock Island for the period starting at 00:00 hours on January 1, 2015 and ending at hour 2400 on December 31, 2015.

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) a default by the Purchaser as set forth in Section 15(a); 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 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 and except if the Purchaser is in default. 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 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 Rocky Reach and Rock Island 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) 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. The Purchase Price shall not include any deduction or withholding for or on account of any tax imposed upon Purchaser.
- (b) The equal monthly payments will be determined by dividing the Purchase Price by the number of calendar months in the Delivery Period (the "Monthly Payment"). Monthly Payments shall not include any deduction or withholding for or on account of any tax imposed upon Purchaser. 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. The Monthly Payment shall be reduced by the amount of any credit owing as described in Appendix C when certain conditions exist as described therein.
- (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 Rocky Reach and Rock Island, 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 other Slice Contracts during the monthly billing period shall be netted with and set off so that only the excess amount remaining due shall be paid by the Party owing the same. Except for the amount of the net termination payment, the determination of the net amounts due under this Contract and other Slice Contracts 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. DELIVERY OF OUTPUT

This Section 6 shall apply to the delivery of the Purchaser's Output. Subject to the provisions of this Contract, the District shall make the Purchaser's Output available to the Purchaser.

- (a) The District and MCHC shall make all determinations concerning Rocky Reach's and Rock Island's Capacity and minimum generation requirement, and the District shall have the unilateral right to determine the maximum allowable amount of change in Output during any time period. Purchaser's schedules shall be based on Purchaser's Output in accordance with Rocky Reach's and Rock Island's operational parameters, District Slice Operating Instructions and the District Business Practices established by the District from time to time.
- (b) Purchaser's schedules shall not be less than Purchaser's Output Percentage of the sum of the minimum generation limits of Rocky Reach and Rock Island as determined by the District or MCHC, nor shall the sum of all export schedules be greater than Purchaser's Output

Percentage of the sum of the maximum generation limits of Rocky Reach and Rock Island as determined by the District or MCHC. The Purchaser's residual reserves equals the Purchaser's maximum generation limit minus the Purchaser's aggregated schedules minus the Purchaser's Canadian Entitlement Obligation and any additional reserve obligations required by standards, District Business Practices and District Slice Operating Instructions. The Purchaser's residual reserves must be greater than or equal to zero at all times. The 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 Rocky Reach and/or Rock Island as a result of Operational Constraints or otherwise. Purchaser's net schedules are also subject to immediate increase in the event of a sudden increase in the minimum generation limits of Rocky Reach and/or Rock Island as a result of Operational Constraints or otherwise.

- (c) If the Purchaser's actual schedules after curtailments and adjustments do not comply with this Section (either above the maximum generation limit or below the minimum generation limit), for any hour or portion thereof, the District, at its sole discretion may charge to the Purchaser non-compliance fees. The amount of the non-compliance fees shall be calculated by the District for each hour using the following methodology: multiply the absolute value of the maximum 10 minute deviation in the hour (MW), either over the maximum generation limit or under the minimum generation limit, by \$50/MW. If the Purchaser's actual hourly integrated schedules do not comply with this Section, there will also be an Energy charge for the hourly deviation. The District will enter a transaction with the Purchaser so that the Purchaser's actual integrated schedule complies with this Section. The price for the Energy (MWh) that the District provides to the Purchaser pursuant to this subsection will be the Mid-Columbia Powerdex hourly index plus \$50/MWh. The price for the Energy that the District receives from the Purchaser pursuant to this subsection will be the Mid-Columbia Powerdex hourly index minus \$50/MWh. If the Powerdex hourly Mid Columbia index is no longer published or utilized by the industry, the District will select another industry recognized hourly index and notify Purchaser of the index to be used for all hours. 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. All commercial efforts must be taken to comply with Section 6. Persistent or repeated non-compliance with Section 6(b) shall also be an Event of Default by the Purchaser as further defined in Section 15 hereof. If Purchaser fails to comply with Section 6(b) for more than 20 hours, or portions thereof in any month, the District may at its sole discretion collect additional penalties including tripling the amount of any applicable non-compliance fee for the remainder of the month. Non-compliance due to unexpected reductions in Capacity or increases in minimum generation limit at Rocky Reach or Rock Island may be excused. If Purchaser fails to comply with Section 6(b) for more than 60 cumulative hours, or portions thereof, in any three consecutive months of any twelve month period, the District may at its sole discretion consider this to be persistent non-compliance and be considered an Event of Default by the Purchaser as further defined in Section 15 hereof.

(d) Pond/Storage Account

- (1) Purchaser shall be entitled to utilize the Purchaser's Output Percentage of the Pond/Storage available at Rocky Reach and Rock Island. The portion of the Purchaser's Output percentage of Pond/Storage available shall be determined per MCHC. In no case shall the Purchaser exceed or go below their Output Percentage of Pond/Storage.
- (2) If Purchaser is utilizing Pond/Storage above or below the Purchaser's Output Percentage of the Pond/Storage available in any hour they will be subject to a non-compliance fee for each hour the Purchaser exceeds or goes below their Output Percentage of Pond/Storage. The amount charged to the Purchaser shall be calculated by the District and will be \$10 per MWh that the Pond is above or below the Purchaser's Output Percentage of the Pond/Storage available. Purchasers will not be subject to such fees if they are directed by the District or MCHC to be outside Pond/Storage Output Percentage limits.
- (3) 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 Output Percentage of Rocky Reach and Rock Island during the relevant Delivery Periods. The District will transfer 30 MWh of Pond/Storage from its 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 30 MWh, then the District will invoice the Purchaser for the shortage quantity (MWh) at an hourly price equal to the Powerdex hourly Mid Columbia index (\$/MWh) or other recognized hourly index for the last hour of the Contract term. If the Powerdex hourly Mid Columbia index is no longer published or utilized by the industry, the District will select another industry recognized hourly index and notify Purchaser of the index to be used for all hours. The Purchaser shall make payment pursuant to Sections 5(c)(d) (f) and (g) above. The Purchaser may schedule more than its share of Rocky Reach and Rock Island hourly inflows, determined in accordance with Section 6(b), 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 sum of the maximum Capacity of Rocky Reach and Rock Island.

As allowed under MCHC, the Purchaser may buy and/or sell pond in order to manage their pond balance. The pond transaction/transfer may be made between any two MCHC participants. MCHC transfers from one account to another as directed by the Purchaser. The Purchaser will be solely responsible to make all commercial arrangements for these transactions.

- (e) During any hour that spill occurred at any non-federal Mid-C Project due to any reason, the spill will be allocated in accordance with MCHC.

- (f) The District may establish new or additional District Business Practices and District Slice Operating Instructions that the District considers necessary. Changes may also be made to conform to mandatory reliability standards and any applicable business practices, criteria and procedures of NERC, WECC, PEAK RC, NWPP and transmission service providers.
- (g) 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 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.
- (h) Purchaser shall provide to the District or to MCHC on a real time basis, an estimate of Purchaser's projected hourly generation requests for Energy from Rocky Reach and Rock Island at xx:20 PPT for the future 96 hours. The accuracy of these hourly generation estimates shall meet MCHC's or the District's suggested targets.
- (i) During all Delivery Periods for Slice Product 19, the District will allow up to six 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.
- (j) Tags that sink in the District's Balancing Authority will only be allowed for the purpose of pond account management during real-time. One tag per hour is the limit for real-time tags. No preschedule tags that sink in the District's Balancing Authority are allowed. Pond account or pond management purposes are defined by the District's Business Practices.
- (k) It is the Purchaser's responsibility to follow all applicable PEAK RC/WECC/NERC standards, guidelines, and criteria for scheduling and tagging. Further, it is Purchaser's responsibility to follow all District Slice Operating Instructions and District Business Practices.
- (l) New real-time schedules and adjustments to existing schedules may be made upon request by the Purchaser but must be communicated and tagged by the Purchaser at least 30 minutes prior to the start of each hour except when specifically allowed by District Business Practices.
- (m) Purchaser must provide sufficient reserves to meet the applicable PEAK RC/WECC/NERC reliability standards. The Purchaser's Output Percentage of the maximum Capacity of Rocky Reach and Rock Island will be reduced by the reserve obligation as described in the District Slice Operating Instructions.
- (n) The hourly Canadian Entitlement Allocation Extension Agreement obligation shall be counted toward meeting the Purchaser's Output Percentage of the minimum generation limits of Rocky Reach and Rock Island.
- (o) Scheduling Purchaser's Output with Hourly Schedules

(1) 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 must schedule its Purchaser's Output by the use of hourly schedules unless a Dynamic Transfer Agreement is executed with the District as is described in Section 6(p) and (q).

(2) 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 this Section 6. Such schedules shall be based on the rights and limits of Capacity and Output and on the probable water supply, based on the US Army Corp of Engineers Chief Joseph discharge estimates and the District's forecasts of side streams, (inflow) of Rocky Reach and Rock Island. The scheduling limits shall be as described in the District Slice Operating Instructions and the District Business Practices, as may be amended by the District from time to time.

(p) Scheduling Purchaser's Output with Dynamic Signal

(1) Purchaser may schedule all or a portion of Purchaser's Output via a dynamic schedule. Dynamic schedules require Purchaser to execute a Dynamic Transfer Agreement with the District. Terms and conditions of the Dynamic Transfer Agreement and timeline for implementation shall be at the sole discretion of the District and Purchaser shall reimburse the District for all costs associated with setup and implementation of the Dynamic Transfer Agreement. The District may at its sole discretion provide host BA services for Purchasers wishing to use a dynamic schedule.

(2) Purchaser may schedule all or a portion of its Output by dynamic signal in accordance with applicable NERC, WECC and PEAK RC reliability criteria and in accordance with the requirements of this Section 6 and a Dynamic Transfer Agreement.

(q) Delivery of Output via a Pseudo Tie

(1) Purchaser may elect to take Output via a pseudo tie with a host BA. A pseudo tie requires Purchaser to execute a pseudo tie agreement with the District. Terms and conditions of the pseudo tie agreement and timeline for implementation shall be at the sole discretion of the District and Purchaser shall reimburse the District for all costs associated with setup and implementation of the pseudo tie agreement.

(2) The Purchaser shall preschedule and deliver the Canadian Entitlement Allocation Extension Agreement obligation from the Purchaser's host Balancing Authority to the District's Balancing Authority. This Canadian Entitlement Energy schedule may be supplied by the Purchaser's Output or, if mutually agreed, an alternate firm source.

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 Energy to be delivered hereunder shall be made available to the Purchaser, at its option subject to transmission limitations as determined by the District, 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 (BPA interconnection)
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 (Grant interconnection)
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) BPA Valhalla Substation (Rock Island)
Location: The point(s) where the Chelan Transmission System interconnects with BPA at 115kV in the vicinity of the BPA 115kV Switchyard and McKenzie 115kV Switchyard.

Voltage: 115 kV

- (8) At any other location mutually agreed to by the District and Purchaser.
- (c) 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.
- (d) 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 Purchaser's Output by means of a technology that is both cost-effective and timely.

SECTION 10. ENVIRONMENTAL ATTRIBUTES

The Purchaser receives for its own use and benefit the Environmental Attributes associated with or related to the Purchaser's Output Percentage of Rocky Reach and Rock Island as provided herein.

The District does not represent or provide any warranty whatsoever regarding the eligibility or use of the Environmental Attributes in any program or market. The District, upon the reasonable request of the Purchaser, will perform any further acts and execute and deliver such documents that may be necessary to carry out the intent and purpose hereof. If the Purchaser requests reasonable actions that require the District to expend substantial time or retain outside expertise, in the District's sole discretion, the Purchaser shall be required to pay those costs in advance of the work being started.

SECTION 11. LIABILITY OF PARTIES/DISCLAIMER OF WARRANTIES

- (a) The Purchaser is purchasing Output from or attributable to Rocky Reach and Rock Island as available and scheduled by the Purchaser. The Purchaser acquires no interest in or rights to any facilities.

- (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 Agreement (to the extent that the waiver above is unenforceable or ineffective), whether proposed by a Party, a nonparty or FERC acting 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 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 irrevocably waive any rights they can or may have to the application of any other standard of review, including the "just and reasonable" standard.
- (f) The protections afforded and the provisions of this section shall survive the termination, expiration or cancellation of this Contract, and shall apply to the fullest extent permitted by law.

NEITHER PARTY SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, BY STATUTE, IN TORT OR CONTRACT,

- (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; 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 with 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 cured 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 to take the Energy under Section 3 of this Contract and such failure is not cured within three (3) Business Days after written notice thereof to the Purchaser;
- (4) the failure of the Purchaser to perform its obligations under Section 6 of this Contract or failure to comply with a Dynamic Transfer Agreement without regard to whether the Purchaser has paid penalties for such violations as provided in this Contract or a Dynamic Transfer Agreement.

- (5) 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
 - (6) the institution, with respect to the Defaulting Party, by the Defaulting Party or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation, receivership 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
 - (7) the occurrence of any default, Event of Default, or Letter of Credit Default (however defined) under any Collateral Annex; or
 - (8) the occurrence of an event of default, however defined, in respect to any Slice Contracts between the Parties.
 - (9) 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, receivership 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
 - (iv) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole or in part, or challenge the validity of, any guarantee.
 - (10) With respect to Purchaser's LC Issuer, a Letter of Credit Default as defined in the Collateral Annex will necessitate a Replacement Letter of Credit be provided in accordance with Section 6 of the Collateral Annex.
- (b) District's Remedies. The District may, upon default of the Purchaser, immediately suspend

deliveries of Output to Purchaser and sell such Output to third parties and permanently retain funds received from such sales for the suspension period until the default is cured, or becomes an Event of Default. If the price received for the Output is less than the Contract Price as defined in Appendix A to the Collateral Annex, the Purchaser shall pay the District the difference. If an Event of Default by the Purchaser occurs, the District may elect to: (i) terminate all transactions between the Parties, including this Contract and other Slice Contracts, and calculate a Slice Termination Payment as set forth in Section 16 below and any termination payment and other payments due upon termination as described in this Contract and other terminated agreements or transactions; or (ii) seek specific performance or maintain successive proceedings for payment of amounts due. If the District chooses to terminate this Contract, the District must terminate all transactions between the Parties and payments due and owing or accrued shall be netted and set off. If the District terminates this Contract and (a) uses the Quotation Methodology in Section 16(b) to calculate the Slice Termination Payment, the District shall calculate and include in the net termination payment any gain or loss incurred for the period between the Event of Default and the first delivery date stated in the Replacement Slice Contract; or (b) uses the Alternative Determination Methodology in Section 16(c) to calculate the Slice Termination Payment, the District shall calculate and include any gain or loss incurred for the period between the Event of Default and the calculation date in the net termination payment. In either event (as described in (a) and (b) above, the gains or losses, will be calculated by comparing the Delivery Period Contract Price as defined in the Collateral Annex, to the Intercontinental Exchange (ICE) Day Ahead Mid-C Peak and Off-Peak Index price for the respective hours. If the ICE Day Ahead Mid-C Peak and Off-Peak Index is no longer published or utilized by the industry, the District will select another industry recognized index and notify Purchaser of the index to be used for this calculation. Payment of these amounts by Purchaser shall be subject to the provisions of subsections 5(c) and (g) and 16(h).

- (c) Purchaser's Remedies. If an Event of Default by the District occurs, the Purchaser may elect to: (i) terminate all transactions between the Parties, including this Contract and other Slice Contracts and calculate a Slice Termination Payment as set forth in Section 16 below and any termination payment or other payments due upon termination as described in this Contract and other terminated agreements or transactions; or (ii) seek specific performance or maintain successive proceedings for enforcement of the District's obligations. If the Purchaser chooses to terminate this Contract, Purchaser must terminate all transactions between the Parties and the payments due and owing or accrued shall be netted and set off. The Purchaser, as calculation agent, shall use the Alternative Determination Methodology in Section 16(c) to calculate the Slice Termination Payment and calculate and include any gain or loss incurred for the period between the Event of Default and the calculation date in the net termination payment. The gains or losses will be calculated by comparing the Delivery Period Contract Price as defined in the Collateral Annex, to the Intercontinental Exchange (ICE) Day Ahead Mid-C Peak and Off-Peak Index price for the respective hours. If the ICE Day Ahead Mid-C Peak and Off-Peak Index is no longer published or utilized by the industry, the Purchaser will select another industry recognized index and notify the District of the index to be used for this calculation. If the 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 Intercontinental Exchange (ICE) Day Ahead Mid-C Peak and Off-Peak Index price for the respective hours. If the ICE Day Ahead Mid-C Peak and Off-Peak Index is no longer published or utilized by the industry, the Purchaser will select another industry recognized index and notify the District of the index to be used for this calculation. Payment by the District shall be subject to the provisions of subsections 5(c) and (g) and 16(h).

- (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 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, 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 pursuant to the criteria set forth below shall be binding on the Parties and conclusive, absent manifest error.
- (b) Quotation Methodology. As soon as reasonably practical after termination, the District shall determine whether to calculate the Slice Termination Payment by obtaining quotations (either firm or indicative) for a Replacement Slice Contract or to use the Alternative Determination Methodology. If the District determines obtaining quotations is appropriate, then the District will endeavor to obtain quotations 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 contemplated term commencing with the first delivery of Output as determined by the District in its sole discretion pursuant to the Replacement Slice Contract and continuing for the remaining nominal term hereof.

- (c) Alternative Determination Methodology. If the District does not elect to obtain or 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) or (c) 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 Calculation Agent shall provide the other Party 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 the other Party with supporting documentation showing in reasonable detail the bids, quotations and other factors used in making such calculations. The amount owed after netting and setoff pursuant to Subsection (g) below 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 amount is paid in full. Payment shall be made in conformance with subsections 5(c) and (g) of this Contract.
- (f) Additional Payment to District if Purchaser Defaults. If in the Event of Default by Purchaser, the District terminates the Contract and obtains quotations or requests bids for a Replacement Slice Contract, the Purchaser shall pay to the District the agreed upon sum of \$100,000 to cover the expenses of the District. The Parties specifically agree that the District shall not be required to track the specific costs associated with the tasks that are taken in order to obtain those quotations of bids and that the amount agreed upon is a reasonable estimate of the costs to be incurred by the District.

- (g) Setoff and Netting. The Calculation Agent shall aggregate or set off any or all other amounts owing between the Parties under all other Slice Contracts, any Dynamic Transfer Agreement and this Contract so that all such amounts are aggregated and/or netted into a single liquidated termination payment.
- (h) Election to Pay Over Time. If the District is the Defaulting Party and the Purchaser owes monies after set offs and netting of all Agreements (as defined in the Collateral Annex), then notwithstanding the three (3) Business Day payment requirement detailed above, the Purchaser may elect to pay the District the monies owed under this Section 16 over a period of time up to three (3) years with the first payment being due on the Slice Termination Payment due date as provided in Section (16)(e). Payments shall be made in equal monthly installments. The Purchaser shall give written notice to the District of this election within two (2) Business Days of the notice provided in Section 16(e). The written notice will include a payment schedule. If the Purchaser is the Defaulting Party and the Purchaser owes the District monies after set offs and netting, payment by Purchaser shall be due within the three (3) Business Day payment requirement.

If the District is the Non-Defaulting Party and it owes the Purchaser monies after set offs and netting of all Agreements (as defined in the Collateral Annex), then notwithstanding the three (3) Business Day payment requirement detailed above, the District may elect to make payments to the Purchaser the monies owed under this Section 16 after set offs and netting of all Agreements over a period of time up to three (3) years with the first payment being due on the Slice Termination Payment due date as provided in Section (16)(e). Payments shall be made in equal monthly installments. The District shall give written notice to the Purchaser of this election with two (2) Business Days of the notice provided in Section 16(e). The written notice will include a payment schedule. If the District is the Defaulting Party and the District owes the Purchaser monies after set offs and netting, payment by District shall be due within the three (3) Business Day payment requirement.

If the Party elects to make payments over time, the Present Value Rate referenced in Section 16(d) in this or another Slice Contract shall not be reflected in determining the amounts to be paid.

This provision and the rights and obligations under it shall survive termination of any applicable transactions or agreements.

If the Party owing money ("Owing Party") to the other Party ("Receiving Party") fails to make a payment under this subsection 16(h), then the Receiving Party shall have the right, by providing written notice to the Owing Party at any time after the Owing Party fails to pay, to require payment of all monies owed under all of the contracts subject to this Section within three (3) Business Days of receipt of the written notice. The monies to be paid under this accelerated payment provision shall be the remaining amounts to be paid under the contracts or agreements reflecting a discount using the Present Value Rate from the date of the written notice.

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.

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 arrangements 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 a “forward contract merchant” in each case as those terms are used in the United States Bankruptcy Code.
- (h) Notwithstanding anything contained to the contrary in the laws of the State of Washington, the District irrevocably agrees that it will not claim immunity on the grounds of sovereignty in any 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.
- (i) The District represents that it is a “utility special entity” as defined under the Commodity Futures Trading Commission’s Regulation 1.3(ggg)(4)(i)(B)(2) as published September 26, 2014.

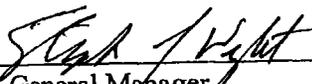
SECTION 24. SEVERABILITY

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: 10/2/14

AVISTA CORPORATION

By: 
Title: Jason R. Thackston
Date: 10/1/14 Senior VP, Energy Resources

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 the Rocky Reach and Rock Island is 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 Rocky Reach and Rock Island 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 Rocky Reach and Rock Island 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 Rocky Reach and Rock Island 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 and Rock Island 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 Rocky Reach and Rock Island 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 Project. The Units currently consist of the eleven generating Units at Rocky Reach and eighteen generating Units at Rock Island plus the house unit. Unit may also include any other generating Units installed in the Rocky Reach and Rock Island Projects (for example attraction water turbines).

Voltage Support / MegaVars (MVARs) – Shall mean reactive power supplied or absorbed by Rocky Reach and Rock Island 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 Rocky Reach and Rock Island.

OUTPUT

Section 1. Rocky Reach and Rock Island Output

(A) **Capacity and Energy Component.** Output (and Purchaser's Output Percentage as defined in Article 3 of this Contract) includes the amount of deliverable electric Capacity and Energy from Rocky Reach and Rock Island 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) adjustments for Energy delivery or consumption obligations that are a Project responsibility under applicable Laws or agreements (including, but not limited to, fish hatcheries);
- (iii) adjustments 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 Output Percentage of Pond/Storage of Rocky Reach and Rock Island, as applicable.

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

(D) **Rocky Reach and Rock Island 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;
- (ix) Reserve obligations associated with the generation in the District's

Balancing Authority. Sufficient reserves must be provided to meet the applicable PEAK RC/WECC/NERC reliability standards, District Business Practices and District Slice Operating Instructions; and

- (x) 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);
 - (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; and
 - (v) Any Environmental Attributes, except as provided in Section 10 of this Contract.

(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 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 has a pseudo-tie agreement to dynamically transfer the Output into another BA. The attaining BA of the pseudo-tie dynamic transfer could then utilize Spinning Operating Reserves and Non-spinning Operating Reserves and would also have the associated WECC/NERC compliance responsibility.

(H) **Implementation.** The reduction of Rocky Reach and/or Rock Island Capacity deliveries to Purchaser will be imposed pro-rata such that reductions of Capacity for Purchaser at any time will equal Purchaser's Output Percentage of the total reductions of Capacity at such time. Energy reductions of Rocky Reach and/or Rock Island 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 Rock Island. Purchaser shall have access to and the ability to use its Purchaser's Output Percentage, inflow, and 100% of the Purchaser's Output 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 District's Business Practices and District Slice Operating Instructions and the MCHC in effect at the time. Rocky Reach and Rock Island have a limited amount of Pond/Storage available each day for daily shaping use. All Pond/Storage at Rocky Reach and Rock Island shall be accounted for and controlled pursuant to the terms of the MCHC and this Contract.

(A) Prior to the first delivery of Output, the Purchaser shall become a signatory of the current MCHC. The District or MCHC will provide information which is available to the District for authorized release and is reasonably necessary to manage this Contract.

The Purchaser shall be responsible for monitoring storage levels and adjusting Energy requests as required to stay within this Contract and 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 this Contract and 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 outside its contractual Pond/Storage limits. 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 Output 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 and Rock Island goes outside its contractual Pond/Storage and MCHC limits, expressed in MWh, the District may implement penalties per Section 6 of this Contract and may immediately reduce Capacity associated with Purchaser's Output Percentage available from Rocky Reach and Rock Island to an amount approximating Purchaser's Output Percentage of allocated inflow until the Purchaser's Pond/Storage account balance has returned to within Purchaser's contractual Pond/Storage and MCHC limits.

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 Slice Product 19

Public Utility District No. 1 of Chelan County, WA (District) is selling a slice of the Output from the Rocky Reach Hydroelectric Project (RR) and the Rock Island Hydro Electric Project (RI) starting HE 0100, P.P.T. January 1, 2015, and ending on HE 2400 (midnight) P.P.T., December 31, 2015, as more fully specified in the CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND ROCK ISLAND PROJECT (referred to as "Contract" herein).

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: The District will evaluate the bids based upon the amount of the bids, variation in Contract provisions, operational issues, counterparty concentration risk and other factors as deemed appropriate in the discretion of the District.

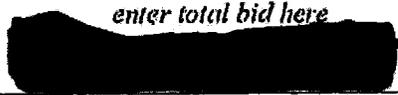
Table 1.

Delivery Period	Slice Product 19 Output Percentage
January 1, 2015– December 31, 2015	4%

Bidder hereby offers to purchase the Output with the percentage share of the Rocky Reach and Rock Island Projects in the Delivery Period 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.

	Purchase Price (\$US) for Slice Product 19
Total Purchase Price for Rocky Reach Project and Rock Island Project Output (with Environmental Attributes)	<i>enter total bid here</i> 

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 30, 2014. 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 liquidated damages to the District of five percent (5%) of the amount of its bid.

Bidder's submittal of a bid and its execution, delivery and performance of the Contract are and will be within its powers, and Bidder 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 to the District's determination, made in its sole discretion, that the transaction will be in the best interests of the District's customers.

The Bidder understands and agrees that the District shall have the right, but not the obligation, to waive any errors or irregularities in any bid. **The bid amounts are entirely the responsibility of the Bidder. The District does not review nor make any determination as to the appropriateness of any bid.**

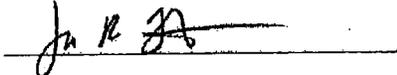
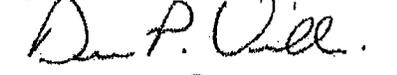
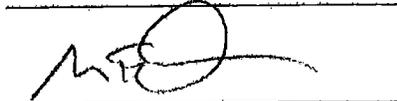
The person signing this document has the authority to sign this bid and bind the named entity to the bid and terms of the Contract.

BIDDER: Avista Corporation ADDRESS: 1411 E Mission
BY: Scott L. Morris Spokane WA 99220
(Type or Print Name)
TITLE: Chairman, President, CEO
SIGNED: Scott Morris Phone (509) 495-4140
DATE: 9/30/14

BIDDER PRIMARY CONTACT NAME: Bill Johnson
BIDDER CONTACT PHONE NUMBER: (509) 495-4046

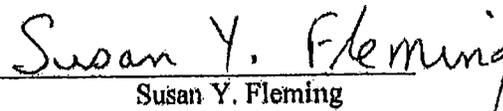
**AVISTA CORPORATION
Incumbency Certificate**

I, Susan Y. Fleming, Assistant Corporate Secretary of Avista Corporation, a corporation of the state of Washington, do hereby certify that the following named persons have been elected, have qualified and are now acting in the capacity indicated, and that the signatures set opposite their names are true and genuine signatures:

Name	Capacity	Signature
Jason R. Thackston	Senior Vice President	
Scott L. Morris	Chairman, President & Chief Executive Officer	
Dennis P. Vermillion	Senior Vice President & President, Avista Utilities	
Mark T. Thies	Senior Vice President, Chief Financial Officer & Treasurer	

IN WITNESS WHEREOF, I have hereunto signed my name this 26th day of September 2014.




Susan Y. Fleming
Assistant Corporate Secretary

APPENDIX C
WANAPUM CREDIT PROVISION

The Wanapum hydro-electric project, owned and operated by Public Utility District No. 2 of Grant County ("Grant County PUD"), is located downriver from the District's Rock Island Hydroelectric Project. In February of 2014, Grant County PUD discovered a crack in a monolith which has caused a drawdown of the forebay of the Wanapum Project. This drawdown has adversely impacted the Rock Island project operations.

In the event that the average daily Wanapum forebay elevation, for reasons related to the monolith repairs, is not above 557 feet msl, the District will provide a credit to the Purchaser for each day that this occurs, in accordance with the tables below. The daily credit amounts will be summed for each month and the monthly total will reduce the Monthly Payment due to the District.

Wanapum Daily Credit Amounts for Slice Product 19												
<i>(For example, if the daily credit is applied for each day in Mar 2015, the total credit for the month is \$2,000 x 31 = \$62,000)</i>												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2015	\$0	\$2,000	\$2,000	\$0	\$0	\$0	\$0	\$0	\$3,000	\$3,000	\$1,000	\$2,000

The credit available under this provision related to the repairs at Grant County PUD's Wanapum project shall continue until the earlier of a) when Grant County PUD receives authorization to operate above 557 feet msl or b) until such time as Grant County PUD continuously operates the Wanapum project above 557 feet msl for four (4) consecutive months, except if Grant County PUD operates below 557 feet msl for reasons unrelated to the Wanapum repairs.

This credit provision is relative to reduced forebay operations only and is not intended to represent estimated total impact to the District's operations resulting from the operating conditions at Wanapum.

**SECOND AMENDMENT TO
CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND
CHELAN POWER SYSTEM
(Slice Product 2)**

This SECOND AMENDMENT TO CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND CHELAN POWER SYSTEM ("Second Amendment") is executed by and 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."

RECITALS

WHEREAS, the Parties entered into a Contract for Sale of Output from the Rocky Reach Project and Chelan Power System ("Contract") on September 21, 2010, as amended January 12, 2011 and

WHEREAS, the Parties agree that a definition in Section 2 of the Contract should be amended and a definition should be removed, additional definitions should be added to Section 2 and Sections 5(g), 6, 15, 16, and 17 should be amended to correct certain language;

WHEREAS, the Parties also desire to amend the Contract to provide for an additional Appendix A Section 1(E) Output Limitations;

NOW, THEREFORE, in recognition of the foregoing recitals which are hereby incorporated into this Second Amendment and in consideration of the covenants herein, the Parties agree as follows:

1. The definition of "Collateral Annex" in Section 2 of the Contract shall be deleted in its entirety and replaced with the following:

"Collateral Annex" means that agreement effective as of October 2, 2014 between the Parties entitled Collateral Annex, as amended from time-to-time, which replaced and superseded the Collateral Annex entered into between the Parties as of September 24, 2010.

2. The definition of "WSPP Transactions" shall be deleted in its entirety.
3. The following definitions of "District Business Practices", "District Slice Operating Instructions", "Dynamic Transfer Agreement" and "Slice Contract" shall be added to Section 2 of the Contract:

"District Business Practices" shall mean those policies, procedures, and business practices of the District that are in effect and amended from time to time.

“District Slice Operating Instructions” shall mean those instructions and details pertaining to the Rocky Reach and Rock Island Project Output and provisions contained in this Contract adopted by the District from time to time.

“Dynamic Transfer Agreement” means a dynamic scheduling, pseudo tie or other similar agreement entered into by the Purchaser and the District.

“Slice Contract” means any Contract(s) for Sale of Output from the Rocky Reach Project and the Chelan Power System, Contract(s) for Sale of Output from the Rocky Reach Project and Rock Island Project and/or Contract(s) for Sale of Output from the Chelan Power System executed by the Parties.

4. Section 5(g) shall be deleted in its entirety and replaced with the following:

The Parties hereby agree that all payment obligations due and owing to each other pursuant to this Contract and other Slice Contracts during the monthly billing period shall be netted with and set off so that only the excess amount remaining due shall be paid by the Party owing the same. Except for the amount of the net termination payment, the determination of the net amounts due under this Contract and other Slice Contracts 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.

5. Section 6 shall be deleted in its entirety and replaced with the following:

SECTION 6. DELIVERY OF OUTPUT

This Section 6 shall apply to the delivery of the Purchaser's Output. Subject to the provisions of this Contract, the District shall make the Purchaser's Output available to the Purchaser.

- (a) The District and MCHC shall make all determinations concerning Rocky Reach's and Rock Island's Capacity and minimum generation requirement, and the District shall have the unilateral right to determine the maximum allowable amount of change in Output during any time period. Purchaser's schedules shall be based on Purchaser's Output in accordance with Rocky Reach's and Rock Island's operational parameters, District Slice Operating Instructions and the District Business Practices established by the District from time to time.
- (b) Purchaser's schedules shall not be less than Purchaser's Output Percentage of the sum of the minimum generation limits of Rocky Reach and Rock Island as determined by the District or MCHC, nor shall the sum of all export schedules be greater than Purchaser's Output Percentage of the sum of the maximum generation limits of Rocky Reach and Rock Island as determined by the District or MCHC. The Purchaser's residual reserves equals the Purchaser's

maximum generation limit minus the Purchaser's aggregated schedules minus the Purchaser's Canadian Entitlement Obligation and any additional reserve obligations required by standards, District Business Practices and District Slice Operating Instructions. The Purchaser's residual reserves must be greater than or equal to zero at all times. The 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 Rocky Reach and/or Rock Island as a result of Operational Constraints or otherwise. Purchaser's net schedules are also subject to immediate increase in the event of a sudden increase in the minimum generation limits of Rocky Reach and/or Rock Island as a result of Operational Constraints or otherwise.

- (c) If the Purchaser's actual schedules after curtailments and adjustments do not comply with this Section (either above the maximum generation limit or below the minimum generation limit), for any hour or portion thereof, the District, at its sole discretion may charge to the Purchaser non-compliance fees. The amount of the non-compliance fees shall be calculated by the District for each hour using the following methodology: multiply the absolute value of the maximum 10 minute deviation in the hour (MW), either over the maximum generation limit or under the minimum generation limit, by \$50/MW. If the Purchaser's actual hourly integrated schedules do not comply with this Section, there will also be an Energy charge for the hourly deviation. The District will enter a transaction with the Purchaser so that the Purchaser's actual integrated schedule complies with this Section. The price for the Energy (MWh) that the District provides to the Purchaser pursuant to this subsection will be the Mid-Columbia Powerdex hourly index plus \$50/MWh. The price for the Energy that the District receives from the Purchaser pursuant to this subsection will be the Mid-Columbia Powerdex hourly index minus \$50/MWh. If the Powerdex hourly Mid Columbia index is no longer published or utilized by the industry, the District will select another industry recognized hourly index and notify Purchaser of the index to be used for all hours. 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. All commercial efforts must be taken to comply with Section 6. Persistent or repeated non-compliance with Section 6(b) shall also be an Event of Default by the Purchaser as further defined in Section 15 hereof. If Purchaser fails to comply with Section 6(b) for more than 20 hours, or portions thereof in any month, the District may at its sole discretion collect additional penalties including tripling the amount of any applicable non-compliance fee for the remainder of the month. Non-compliance due to unexpected reductions in Capacity or increases in minimum generation limit at Rocky Reach or Rock Island may be excused. If Purchaser fails to comply with Section 6(b) for more than 60 cumulative hours, or portions thereof, in any three consecutive months of any twelve month period, the District may at its sole discretion consider this

to be persistent non-compliance and be considered an Event of Default by the Purchaser as further defined in Section 15 hereof.

(d) Pond/Storage Account

- (1) Purchaser shall be entitled to utilize the Purchaser's Output Percentage of the Pond/Storage available at Rocky Reach and Rock Island. The portion of the Purchaser's Output percentage of Pond/Storage available shall be determined per MCHC. In no case shall the Purchaser exceed or go below their Output Percentage of Pond/Storage.
- (2) If Purchaser is utilizing Pond/Storage above or below the Purchaser's Output Percentage of the Pond/Storage available in any hour they will be subject to a non-compliance fee for each hour the Purchaser exceeds or goes below their Output Percentage of Pond/Storage. The amount charged to the Purchaser shall be calculated by the District and will be \$10 per MWh that the Pond is above or below the Purchaser's Output Percentage of the Pond/Storage available. Purchasers will not be subject to such fees if they are directed by the District or MCHC to be outside Pond/Storage Output Percentage limits.
- (3) 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 Output Percentage of Rocky Reach and Rock Island during the relevant Delivery Periods. The District will transfer 30 MWh of Pond/Storage from its 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 30 MWh, then the District will invoice the Purchaser for the shortage quantity (MWh) at an hourly price equal to the Powerdex hourly Mid Columbia index (\$/MWh) or other recognized hourly index for the last hour of the Contract term. If the Powerdex hourly Mid Columbia index is no longer published or utilized by the industry, the District will select another industry recognized hourly index and notify Purchaser of the index to be used for all hours. The Purchaser shall make payment pursuant to Sections 5(c) (d) (f) and (g) above. The Purchaser may schedule more than its share of Rocky Reach and Rock Island hourly inflows, determined in accordance with Section 6(b), 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 sum of the maximum Capacity of Rocky Reach and Rock Island.

As allowed under MCHC, the Purchaser may buy and/or sell pond in order to manage their pond balance. The pond transaction/transfer may be made between any two MCHC participants. MCHC transfers from one account to another as directed by the Purchaser. The Purchaser will be solely responsible to make all commercial arrangements for these transactions.

- (e) During any hour that spill occurred at any non-federal Mid-C Project due to any reason, the spill will be allocated in accordance with MCHC.
- (f) The District may establish new or additional District Business Practices and District Slice Operating Instructions that the District considers necessary. Changes may also be made to conform to mandatory reliability standards and any applicable business practices, criteria and procedures of NERC, WECC, PEAK RC, NWPP and transmission service providers.
- (g) 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 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.
- (h) Purchaser shall provide to the District or to MCHC on a real time basis, an estimate of Purchaser's projected hourly generation requests for Energy from Rocky Reach and Rock Island at xx:20 PPT for the future 96 hours. The accuracy of these hourly generation estimates shall meet MCHC's or the District's suggested targets.
- (i) During all Delivery Periods for Slice Product 2, the District will allow up to six 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.
- (j) Tags that sink in the District's Balancing Authority will only be allowed for the purpose of pond account management during real-time. One tag per hour is the limit for real-time tags. No preschedule tags that sink in the District's Balancing Authority are allowed. Pond account or pond management purposes are defined by the District's Business Practices.
- (k) It is the Purchaser's responsibility to follow all applicable PEAK RC/WECC/NERC standards, guidelines, and criteria for scheduling and tagging. Further, it is Purchaser's responsibility to follow all District Slice Operating Instructions and District Business Practices.
- (l) New real-time schedules and adjustments to existing schedules may be made upon request by the Purchaser but must be communicated and tagged by the

Purchaser at least 30 minutes prior to the start of each hour except when specifically allowed by District Business Practices.

- (m) Purchaser must provide sufficient reserves to meet the applicable PEAK RC/WECC/NERC reliability standards. The Purchaser's Output Percentage of the maximum Capacity of Rocky Reach and Rock Island will be reduced by the reserve obligation as described in the District Slice Operating Instructions.
- (n) The hourly Canadian Entitlement Allocation Extension Agreement obligation shall be counted toward meeting the Purchaser's Output Percentage of the minimum generation limits of Rocky Reach and Rock Island.
- (o) Scheduling Purchaser's Output with Hourly Schedules
 - (1) 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 must schedule its Purchaser's Output by the use of hourly schedules unless a Dynamic Transfer Agreement is executed with the District as is described in Section 6(p) and (q).
 - (2) 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 this Section 6. Such schedules shall be based on the rights and limits of Capacity and Output and on the probable water supply, based on the US Army Corp of Engineers Chief Joseph discharge estimates and the District's forecasts of side streams, (inflow) of Rocky Reach and Rock Island. The scheduling limits shall be as described in the District Slice Operating Instructions and the District Business Practices, as may be amended by the District from time to time.
- (p) Scheduling Purchaser's Output with Dynamic Signal
 - (1) Purchaser may schedule all or a portion of Purchaser's Output via a dynamic schedule. Dynamic schedules require Purchaser to execute a Dynamic Transfer Agreement with the District. Terms and conditions of the Dynamic Transfer Agreement and timeline for implementation shall be at the sole discretion of the District and Purchaser shall reimburse the District for all costs associated with setup and implementation of the Dynamic Transfer Agreement. The District may at its sole discretion provide host BA services for Purchasers wishing to use a dynamic schedule.

- (2) Purchaser may schedule all or a portion of its Output by dynamic signal in accordance with applicable NERC, WECC and PEAK RC reliability criteria and in accordance with the requirements of this Section 6 and a Dynamic Transfer Agreement.

(q) Delivery of Output via a Pseudo Tie

- (1) Purchaser may elect to take Output via a pseudo tie with a host BA. A pseudo tie requires Purchaser to execute a pseudo tie agreement with the District. Terms and conditions of the pseudo tie agreement and timeline for implementation shall be at the sole discretion of the District and Purchaser shall reimburse the District for all costs associated with setup and implementation of the pseudo tie agreement.
- (2) The Purchaser shall preschedule and deliver the Canadian Entitlement Allocation Extension Agreement obligation from the Purchaser's host Balancing Authority to the District's Balancing Authority. This Canadian Entitlement Energy schedule may be supplied by the Purchaser's Output or, if mutually agreed, an alternate firm source.

6. Section 15 shall be deleted in its entirety and replaced with the following:

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 cured 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 to take the Energy under Section 3 of this Contract and such failure is not cured within three (3) Business Days after written notice thereof to the Purchaser;
- (4) the failure of the Purchaser to perform its obligations under Section 6 of this Contract or failure to comply with a Dynamic Transfer Agreement without regard to whether the Purchaser has paid penalties for such violations as provided in this Contract or a Dynamic Transfer Agreement.

- (5) 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
- (6) the institution, with respect to the Defaulting Party, by the Defaulting Party or by another person or entity of a bankruptcy, reorganization, moratorium, liquidation, receivership 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
- (7) the occurrence of any default, Event of Default, or Letter of Credit Default (however defined) under any Collateral Annex; or
- (8) the occurrence of an event of default, however defined, in respect to any Slice Contracts between the Parties.
- (9) 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, receivership 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
 - (iv) a Guarantor shall repudiate, disaffirm, disclaim, or reject, in whole

or in part, or challenge the validity of, any guarantee.

(10) With respect to Purchaser's LC Issuer, a Letter of Credit Default as defined in the Collateral Annex will necessitate a Replacement Letter of Credit be provided in accordance with Section 6 of the Collateral Annex.

- (b) District's Remedies. The District may, upon default of the Purchaser, immediately suspend deliveries of Output to Purchaser and sell such Output to third parties and permanently retain funds received from such sales for the suspension period until the default is cured, or becomes an Event of Default. If the price received for the Output is less than the Contract Price as defined in Appendix A to the Collateral Annex, the Purchaser shall pay the District the difference. If an Event of Default by the Purchaser occurs, the District may elect to: (i) terminate all transactions between the Parties, including this Contract and other Slice Contracts, and calculate a Slice Termination Payment as set forth in Section 16 below and any termination payment and other payments due upon termination as described in this Contract and other terminated agreements or transactions; or (ii) seek specific performance or maintain successive proceedings for payment of amounts due. If the District chooses to terminate this Contract, the District must terminate all transactions between the Parties and payments due and owing or accrued shall be netted and set off. If the District terminates this Contract and (a) uses the Quotation Methodology in Section 16(b) to calculate the Slice Termination Payment, the District shall calculate and include in the net termination payment any gain or loss incurred for the period between the Event of Default and the first delivery date stated in the Replacement Slice Contract; or (b) uses the Alternative Determination Methodology in Section 16(c) to calculate the Slice Termination Payment, the District shall calculate and include any gain or loss incurred for the period between the Event of Default and the calculation date in the net termination payment. In either event (as described in (a) and (b) above, the gains or losses, will be calculated by comparing the Delivery Period Contract Price as defined in the Collateral Annex, to the Intercontinental Exchange (ICE) Day Ahead Mid-C Peak and Off-Peak Index price for the respective hours. If the ICE Day Ahead Mid-C Peak and Off-Peak Index is no longer published or utilized by the industry, the District will select another industry recognized index and notify Purchaser of the index to be used for this calculation. Payment of these amounts by Purchaser shall be subject to the provisions of subsections 5(c) and (g) and 16(h).
- (c) Purchaser's Remedies. If an Event of Default by the District occurs, the Purchaser may elect to: (i) terminate all transactions between the Parties, including this Contract and other Slice Contracts and calculate a Slice Termination Payment as set forth in Section 16 below and any termination payment or other payments due upon termination as described in this Contract and other terminated agreements or transactions; or (ii) seek specific performance or maintain successive proceedings for enforcement of the

District's obligations. If the Purchaser chooses to terminate this Contract, Purchaser must terminate all transactions between the Parties and the payments due and owing or accrued shall be netted and set off. The Purchaser, as calculation agent, shall use the Alternative Determination Methodology in Section 16(c) to calculate the Slice Termination Payment and calculate and include any gain or loss incurred for the period between the Event of Default and the calculation date in the net termination payment. The gains or losses will be calculated by comparing the Delivery Period Contract Price as defined in the Collateral Annex, to the Intercontinental Exchange (ICE) Day Ahead Mid-C Peak and Off-Peak Index price for the respective hours. If the ICE Day Ahead Mid-C Peak and Off-Peak Index is no longer published or utilized by the industry, the Purchaser will select another industry recognized index and notify the District of the index to be used for this calculation. If the 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 Intercontinental Exchange (ICE) Day Ahead Mid-C Peak and Off-Peak Index price for the respective hours. If the ICE Day Ahead Mid-C Peak and Off-Peak Index is no longer published or utilized by the industry, the Purchaser will select another industry recognized index and notify the District of the index to be used for this calculation. Payment by the District shall be subject to the provisions of subsections 5(c) and (g) and 16(h).

(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.

7. Section 16 shall be deleted in its entirety and replaced with the following:

SECTION 16. TERMINATION PAYMENT

A Slice Termination Payment as referenced in this Contract shall be calculated 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, 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 pursuant to the criteria set forth below shall be binding on the Parties and conclusive, absent manifest error.
- (b) Quotation Methodology. As soon as reasonably practical after termination, the District shall determine whether to calculate the Slice Termination Payment by obtaining quotations (either firm or indicative) for a Replacement Slice Contract or to use the Alternative Determination Methodology. If the District determines obtaining quotations is appropriate, then the District will endeavor to obtain quotations 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 contemplated term commencing with the first delivery of Output as determined by the District in its sole discretion pursuant to the Replacement Slice Contract and continuing for the remaining nominal term hereof.

- (c) Alternative Determination Methodology. If the District does not elect to obtain or 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) or (c) 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 Calculation Agent shall provide the other Party 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 the other Party with supporting documentation showing in reasonable detail the bids, quotations and other factors used in making such calculations. The amount owed after netting and setoff pursuant to Subsection (g) below 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 amount is paid in full. Payment shall be made in conformance with subsections 5(c) and (g) of this Contract.
- (f) Additional Payment to District if Purchaser Defaults. If in the Event of Default by Purchaser, the District terminates the Contract and obtains quotations or requests bids for a Replacement Slice Contract, the Purchaser shall pay to the District the agreed upon sum of \$100,000 to cover the expenses of the District. The Parties specifically agree that the District shall not be required to track the specific costs associated with the tasks that are taken in order to obtain those quotations of bids and that the amount agreed upon is a reasonable estimate of the costs to be incurred by the District.
- (g) Setoff and Netting. The Calculation Agent shall aggregate or set off any or all other amounts owing between the Parties under all other Slice Contracts, any Dynamic Transfer Agreement and this Contract so that all such amounts are aggregated and/or netted into a single liquidated termination payment.
- (h) Election to Pay Over Time. If the District is the Defaulting Party and the Purchaser owes monies after set offs and netting of all Agreements (as defined in the Collateral Annex), then notwithstanding the three (3) Business Day payment requirement detailed above, the Purchaser may elect to pay the District the monies owed under this Section 16 over a period of time up to three (3) years with the first payment being due on the Slice Termination

Payment due date as provided in Section (16)(e). Payments shall be made in equal monthly installments. The Purchaser shall give written notice to the District of this election within two (2) Business Days of the notice provided in Section 16(e). The written notice will include a payment schedule. If the Purchaser is the Defaulting Party and the Purchaser owes the District monies after set offs and netting, payment by Purchaser shall be due within the three (3) Business Day payment requirement.

If the District is the Non-Defaulting Party and it owes the Purchaser monies after set offs and netting of all Agreements (as defined in the Collateral Annex), then notwithstanding the three (3) Business Day payment requirement detailed above, the District may elect to make payments to the Purchaser the monies owed under this Section 16 after set offs and netting of all Agreements over a period of time up to three (3) years with the first payment being due on the Slice Termination Payment due date as provided in Section (16)(e). Payments shall be made in equal monthly installments. The District shall give written notice to the Purchaser of this election with two (2) Business Days of the notice provided in Section 16(e). The written notice will include a payment schedule. If the District is the Defaulting Party and the District owes the Purchaser monies after set offs and netting, payment by District shall be due within the three (3) Business Day payment requirement.

If the Party elects to make payments over time, the Present Value Rate referenced in Section 16(d) in this or another Slice Contract shall not be reflected in determining the amounts to be paid.

This provision and the rights and obligations under it shall survive termination of any applicable transactions or agreements.

If the Party owing money ("Owing Party") to the other Party ("Receiving Party") fails to make a payment under this subsection 16(h), then the Receiving Party shall have the right, by providing written notice to the Owing Party at any time after the Owing Party fails to pay, to require payment of all monies owed under all of the contracts subject to this Section within three (3) Business Days of receipt of the written notice. The monies to be paid under this accelerated payment provision shall be the remaining amounts to be paid under the contracts or agreements reflecting a discount using the Present Value Rate from the date of the written notice.

8. Section 17 shall be deleted in its entirety and replaced with the following:

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.

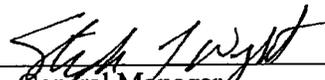
9. The following subsection (x) shall be added to Appendix A, Section 1(E):

Reserve obligations associated with the generation in the District's Balancing Authority. Sufficient reserves must be provided to meet the applicable WECC/NERC reliability standards, District Business Practices and District Slice Operating Instructions.

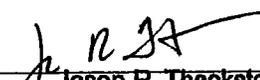
10. All other terms and conditions set forth in the Contract shall continue to be binding on the Parties.

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

PUBLIC UTILITY DISTRICT NO. 1 OF
CHELAN COUNTY

By: 
Title: General Manager
Date: 10/2/14

AVISTA CORPORATION

By: 
Title: Jason R. Thackston
Date: 10/1/14 Senior VP, Energy Resources

COLLATERAL ANNEX
to the
CONTRACT(S) FOR SALE OF OUTPUT FROM
THE ROCKY REACH PROJECT AND ROCK ISLAND PROJECT AND THE
CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND
CHELAN POWER SYSTEM

This Collateral Annex together with the Cover Sheet Elections (collectively, the "Collateral Annex"), between Public Utility District No. 1 of Chelan County, Washington ("Party A") and Avista Corporation ("Party B") (each a "Party" and, collectively, the "Parties"), is given to provide credit assurances to secure each Party's Obligations under the Agreements, as each term is defined below.

This Collateral Annex shall be effective as of October 2, 2014 ("the Effective Date") and supersedes the Collateral Annex between the Parties signed September 24, 2010.

The Obligations of each Party to the other Party under the Agreements shall be secured in accordance with the provisions of this Collateral Annex, which sets forth the conditions under which a Party will be required to deliver Performance Assurance and the conditions under which a Party will be required to release and return Performance Assurance. To the extent there are any inconsistencies between the terms and conditions of the Agreements and this Collateral Annex, this Collateral Annex shall prevail. To the extent there are any inconsistencies between the terms and conditions of this Collateral Annex, excluding the Cover Sheet Elections, and the Cover Sheet Elections, the Cover Sheet Elections shall prevail.

1. Definitions.

For purposes of this Collateral Annex, the following terms have the meanings set forth below or in the provisions referred to below:

"Agreements" means, collectively, all Slice Contracts between the Parties. The term "Slice Contracts" is defined in the Contract for Sale of Output from the Rocky Reach Project and the Rock Island Project.

"Beneficiary Party" means, at any time, the Party entitled to receive, or that has received and is the beneficiary of, Performance Assurance provided by, or on behalf of, the Posting Party.

"Business Day" means any day other than a Saturday or Sunday or a national (United States or Canadian, whichever is applicable) holiday. United States holidays shall be holidays observed by Federal Reserve member banks in New York City. Where both Party A and Party B have their principal place of business in the United States, Canadian holidays shall not apply. In situations where one Party has its principal place of business within the United States and the other Party's principal place of business is within 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").

“Collateral Requirement” has the meaning stated in Section 4(c) of this Collateral Annex.

“Collateral Threshold” means, with respect to a Party, the collateral threshold, if any, set forth in Part I of the Cover Sheet Elections for that Party, or if no amount is set for such Party, such amount shall be zero (0).

“Contract for Sale of Output from the Rocky Reach Project and the Rock Island Project” means any Contract for Sale of Output from the Rocky Reach Project and the Rock Island Project between Party A and Party B, including all amendments and annexes thereto agreed to between the parties.

“Credit Rating” means, with respect to an entity but including, as applicable, a Party or its Guarantor, as the case may be, on any date of determination: (a) the rating then assigned to such entity’s (i) unsecured debt (such debt not supported by third-party credit enhancement) or (ii) if such rating in clause (i) is unavailable, its corporate credit rating, in each case as issued by Standard & Poor’s (“S&P”), Moody’s Investors Service (“Moody’s”), or Fitch, Inc. (“Fitch”) or other rating agency or agencies to which the Parties may agree in writing, or (b) other such rating to which the Parties may agree in writing, and as further defined or described by the Parties in the Cover Sheet Elections.

“Dealer” means any entity that would qualify as a “Dealer” under Section 4 of the WSPP Agreement, and any leading broker or dealer engaged on a national level in the purchase, sale or exchange of energy, capacity or related rights on NYMEX or related exchanges, including forward purchase agreements, futures agreements and derivative products related thereto, except that no Party or any parent, subsidiary, or other affiliate of a Party shall be a Dealer for purposes of this Collateral Annex.

“Deliver” or “Delivered” or related terms means with respect to any Letter of Credit, the physical delivery thereof by the issuing bank to the Beneficiary Party. Any Delivery required to be made on a day that is not a Business Day shall instead be required to be made on the first following Business Day.

“Demand Notice” has the meaning given in Section 4(a) hereof.

“Defaulting Party” means a Party who has experienced an event of default as described in the Slice Contracts.

“Early Termination” means a termination of any Slice Contracts, as the case may be, due to an Event of Default.

“Event of Default” has the meaning stated in Section 15 of any Slice Contract, as modified by Section 3 of this Collateral Annex.

“Guarantor” has the meaning stated in Section 4.7e of the WSPP Agreement and shall also include any entity identified in Part I of the Cover Sheet Elections.

“Independent Amount” means that amount required in Part IV of the Cover Sheet Elections. The Independent Amount is an additional credit support amount, in the form of (i) a Letter of Credit, or (ii) other security in form and subject to terms and conditions that are acceptable to the Beneficiary Party in its sole and absolute discretion, that is required independent of any Collateral Requirement or Excess Performance Assurance calculated under Sections 4 and 5.

“LC Issuer” means (a) an entity organized under the laws of the United States of America or any state thereof, or a domestic branch of a foreign entity, having capital and surplus of at least one billion dollars (\$1,000,000,000) and having a Credit Rating from any two of the following three rating agencies of at least (i) “AA-” by Standard and Poors Ratings Group, a division of McGraw-Hill, Inc. (“S&P”), (ii) “Aa3” by Moody’s Investors Services, Inc. (“Moody’s”), and (iii) “AA-” by Fitch Ratings, or (b) any other entity to which the Parties agree in the Cover Sheet Elections or otherwise in writing, provided, that the Parties may agree to another definition of LC Issuer in Part VIII of the Cover Sheet Elections or otherwise in writing, which other definition shall supersede the foregoing. The Beneficiary Party may reject an LC Issuer that conforms to the requirements in (a) or (b) above if in the Beneficiary Party’s sole discretion acceptance of additional credit from the applicable LC Issuer would be an unacceptable credit risk due to other commitments it has accepted from such LC Issuer.

“Letter of Credit” means an irrevocable, non-transferable, standby letter of credit, issued by a LC Issuer in a form consistent with the Parties’ agreements stated in Part VIII of the Cover Sheet Elections and which Letter of Credit is otherwise reasonably acceptable to the Beneficiary Party.

“Letter of Credit Default” means with respect to an outstanding Letter of Credit and prior to the time such Letter of Credit is required to be canceled or returned to a Party in accordance with the terms of this Collateral Annex, the occurrence of any of the following events: (a) the issuer of the Letter of Credit has failed to satisfy the criteria of a LC Issuer under this Collateral Annex, the Cover Sheet Elections, or other Agreements of the Parties, as applicable; (b) the LC Issuer has failed to comply with or perform its obligations under such Letter of Credit, including, but not limited to a failure to comply with a request to draw thereon in accordance with its terms; (c) the LC Issuer has disaffirmed, disclaimed, repudiated or rejected, in whole or in part, or challenged the validity of, such Letter of Credit; (d) such Letter of Credit has expired or terminated, has become unenforceable, or has failed or ceased to be in full force and effect at any time during the term of any transaction under the Agreements for which Performance Assurance is required to be kept in full force and effect hereunder, in any such case without replacement within three (3) Business Days following the date such Letter of Credit expired, terminated, has become unenforceable, or failed or ceased to be in full force and effect; (e) the LC Issuer has initiated or become subject to, or any other party has initiated against LC Issuer (i) a bankruptcy, reorganization, moratorium, liquidation, receivership or similar insolvency proceeding under federal or state law, (ii) a similar proceeding for relief under any federal or state bankruptcy or insolvency law affecting creditor’s rights, or (iii) a proceeding to liquidate or wind-up the business or affairs of the LC Issuer; (f) the LC Issuer makes an assignment for the benefit of creditors; or (g) the LC Issuer admits in writing its inability to pay its debts generally as they become due.

“Material Adverse Change” has the meaning stated, for the applicable Party, in Part II of the Cover Sheet Elections.

“Minimum Transfer Amount” means, with respect to a Party, the amount set forth in Part V of the Cover Sheet Elections for such Party, or if no amount is filled in for such Party, such amount shall be zero (0).

“Obligations” means, with respect to a Posting Party (a) all debts, liabilities and amounts due or that may become due from the Posting Party to the Beneficiary Party pursuant to (i) the Agreements, (ii) this Collateral Annex, (iii) any Security Agreement, and (iv) any other documents, instruments or agreements executed in connection therewith; and (b) all amounts owed under any modifications, renewals or extensions of the foregoing.

“Party” and “Parties” have the respective meanings stated in the introductory paragraph of this Collateral Annex.

“Performance Assurance” means collateral in the form of (i) a Letter of Credit, or (ii) other security in form and subject to terms and conditions that are acceptable to the Beneficiary Party in its sole and absolute discretion. Performance Assurance shall include any Independent Amount as required in Part IV of the Cover Sheet Elections, except for purposes of calculating the Collateral Requirement in Section 4(c) and the Excess Performance Assurance in Section 5(a).

“Posting Deadline” has the meaning given in Part VII of the Cover Sheet Elections.

“Posting Party” means, at any time, the Party required to post, or that has posted, Performance Assurance to, or for the benefit of, the Beneficiary Party.

“Potential Event of Default” means an event which, (a) with the giving of notice required under the respective Agreement, if any is required, or (b) the failure to remedy or cure under such Agreements, if remedy or cure is permitted, or both (a) and (b), would be an Event of Default.

“Reduction Deadline” has the meaning given in Part VII of the Cover Sheet Elections.

“Replacement Letter of Credit” has the meaning given in Section 6(a) hereof.

“Rounding Amount” means, with respect to a Party, the amount, set forth in Part VI of the Cover Sheet Elections for such Party, or if no amount is filled in for such Party, such amount shall be zero (0).

“Security Agreement” means a Security Agreement, which may be in the form attached hereto, applicable to Performance Assurance in a form other than Letter of Credit.

“Slice Collateral Component” means the amount determined in accordance with the methodology set forth in Appendix A to this Collateral Annex, including amounts due for rendered performance by Party A to Party B under all Slice Contracts, whether or not invoiced or

due. As calculated under Appendix A, the Slice Collateral Component as of any calculation date may either be in favor of Party A or Party B.

“Termination Date” means the date thirty (30) days after either Party provides written notice of termination of the Collateral Annex to the other Party. In no case will the Termination Date precede the date on which the Beneficiary Party shall have received full and final payment of all of the Obligations. If the Beneficiary Party has not received full and final payment of all Obligations at the time notice of termination is provided, then the Termination Date will be the date that all Obligations are paid in full.

“Value” on any date means: with respect to any Letter of Credit, the maximum stated amount remaining available to be drawn by the Beneficiary Party thereunder on such date; provided, however, that (x) the Value of a Letter of Credit that is affected by a Letter of Credit Default shall be zero (-0-) and (y) the Value of any Letter of Credit that expires less than twenty (20) Business Days from the date of calculation shall be zero (-0-) unless the conditions described in Section 6(a) hereof have been satisfied.

“UCC” means the Uniform Commercial Code as in effect from time to time in the State of Washington, without regard to the conflicts of laws rules thereof, except to the extent that the perfection, the effect of perfection or nonperfection and the priority of the security interest granted hereunder, or remedies hereunder, are governed by the law of any jurisdiction other than the State of Washington, the term UCC shall mean the Uniform Commercial Code of such other jurisdiction as necessary to give complete effect to this Collateral Annex.

“WSPP Agreement” means the WSPP Agreement, including Service Schedules and Exhibits attached, the Master Confirmation Agreement to the WSPP Agreement executed by the Parties on the same date as the Slice Contract, any amendments and annexes thereto agreed to between the Parties, and all Transactions evidenced by confirmations between the Parties entered into or conducted thereunder. The numbering of sections contained herein correspond to the WSPP Agreement effective as of October 1, 2009 and any renumbering of the sections shall not effect the terms of this Collateral Annex.

2. Encumbrance; Grant of Security Interest.

- (a) As security for the prompt and complete payment of all amounts due or that may now or hereafter become due from a Party to the other Party and the performance by a Party of all covenants and obligations to be performed by it pursuant to this Collateral Annex, the Agreements and all Obligations, each Party hereby pledges, assigns, conveys and transfers to the other Party, and hereby grants to the other Party a present and continuing security interest in and to, and a general first lien upon and right of set off against, all Performance Assurance that has been or may in the future be Delivered to, or received by, the other Party. Each Party agrees to take such action as the other Party reasonably requests in order to perfect the other Party's continuing security interest, and lien on (and right of setoff against), such Performance Assurance.

- (b) The security interest created hereunder shall (i) remain in full force and effect until the security interest granted hereby is terminated in accordance with the second sentence of this Section 2(b), (ii) be binding upon the Posting Party, its successors and assigns and (iii) inure to the benefit of the Beneficiary Party and its successors, transferees and assigns. On the Termination Date with respect to each applicable Posting Party, the security interest granted hereunder shall terminate and all rights to the Performance Assurance that may then remain shall revert to the Posting Party. Upon such termination, the Beneficiary Party shall return all Performance Assurance in its possession or otherwise under its control to the Posting Party pursuant to Section 5(c) of this Collateral Annex and, at the Posting Party's expense, execute and deliver to the Posting Party such documents as the Posting Party shall reasonably request to evidence termination of the security interest.
- (c) The security interest created hereunder is in addition to, and not in lieu of, any and all remedies that may be available under the Agreements.
- (d) In the event a Party claims in any judicial proceeding that the grant set forth in Section 2(a) of this Collateral Annex is ineffective and fails to prevail on the claim, then that Party shall pay the other Party's reasonable attorneys fees incurred in defending against the claim.

3. Additional Events of Default.

The following events are added as an additional Event of Default under applicable sections of the Agreements and are incorporated therein for all purposes under this Collateral Annex:

- (a) A Party fails to establish, maintain, transfer or extend Performance Assurance, or return Excess Performance Assurance, in any such case when required pursuant to the Parties' Collateral Annex.
- (b) An event of default, however defined, under any Agreement thereunder shall be an event of default under the other Agreements and under this Collateral Annex.

4. Collateral Requirement.

- (a) From time to time, on any Business Day prior to 7:00 a.m. PPT, but no more than once daily, the Beneficiary Party may demand by notice (each a "Demand Notice") that the Posting Party transfer Performance Assurance to or for the benefit of the Beneficiary Party, in an amount no less than the Collateral Requirement, provided that both conditions (i) and (ii) of this Section 4(a) are satisfied.

- (i) No Event of Default has occurred and is continuing where the Beneficiary Party is the Defaulting Party and no Potential Event of Default exists where the Beneficiary Party is the potentially Defaulting Party;
 - (ii) No Early Termination has occurred or been designated with respect to such Beneficiary Party as the defaulting party.
- (b) After receiving a Demand Notice from the Beneficiary Party pursuant to Section 4(a) of this Collateral Annex, but subject to the netting requirements in Section 5(b) of this Collateral Annex, the Posting Party shall, by the Posting Deadline, Deliver, or cause to be Delivered to the Beneficiary Party, Performance Assurance to, or for the benefit of, the Beneficiary Party, in an amount no less than the Collateral Requirement as defined in Section 4(c) of this Collateral Annex, provided, however, that a Posting Party shall not have an obligation to transfer Performance Assurance until the Collateral Requirement exceeds the Minimum Transfer Amount, at which time the Posting Party shall transfer the entire amount of the Collateral Requirement to the Beneficiary Party.
- (c) The "Collateral Requirement" is the amount calculated, as of the date of the Demand Notice, rounded up to the nearest integral multiple of the Rounding Amount, which is equal to (x) less (y) , but no less than zero, where:

(x) is the net of

- (i) any Slice Collateral Component
- (ii) any further and additional amounts due for rendered performance by either Party A or Party B under any Slice Contract whether or not invoiced or due, and

(y) is the sum of

- (i) the Value of Performance Assurance, excluding the Independent Amount previously provided by or otherwise credited to the Posting Party for the benefit of the Beneficiary Party and not released as of the time the Beneficiary Party made the demand plus
 - (ii) the Collateral Threshold then applicable to the Posting Party.
- (d) Any Letter of Credit shall be delivered to such address as the Beneficiary Party shall specify.

- (e) Party A shall serve as calculation agent for purposes of calculating Collateral Requirement, the amount of Performance Assurance to be posted, and the amount of any Excess Performance Assurance. Calculations shall be performed daily and communicated to Party B by 7:00 a.m. PPT. All such calculations shall be deemed conclusive, final and binding on the parties absent manifest error.

5. Reduction, Return, and Substitution of Performance Assurance.

- (a) Reduction of Performance Assurance. From time to time, on any Business Day prior to 8:00 a.m. PPT but no more than once daily, a Posting Party may demand that the Beneficiary Party reduce Performance Assurance in an amount equal to the Excess Performance Assurance as defined in this Section, provided, that the Posting Party shall not have any right to demand such reduction if on or prior to such Business Day, an Event of Default has occurred and is continuing where the Posting Party is the Defaulting Party, a Potential Event of Default exists where the Posting Party is the potentially Defaulting Party, or an Early Termination has occurred or been designated with respect to such Posting Party for which the Posting Party has not satisfied its Obligations. The Beneficiary Party shall comply with the demand by reducing the amount(s) of outstanding Letter(s) of Credit the Posting Party previously posted, provided, however, that a Beneficiary Party shall not have an obligation to transfer or cause the transfer of Excess Performance Assurance until the Excess Performance Assurance exceeds the Minimum Transfer Amount, at which time the Beneficiary Party shall transfer the entire amount of the Excess Performance Assurance to the Posting Party. The Posting Party shall have the right to specify such means of compliance. If Excess Performance Assurance is returned by reducing the face amount of an outstanding Letter of Credit and the LC Issuer requires that the reduction be implemented through a cancellation of the existing Letter of Credit and the issuance of a new Letter of Credit with a reduced face amount, then (1) the Posting Party shall have delivered a new Letter of Credit to the Beneficiary Party in a form reasonably acceptable to the Beneficiary Party and in an amount not less than the then-current Collateral Requirement, and (2) in the event that an Event of Default occurs, as to which the Posting Party is the defaulting Party, between the Reduction Deadline and the date on which the new Letter of Credit is executed and delivered to the Beneficiary Party, the Beneficiary Party shall be entitled to draw from the existing Letter of Credit only an amount up to but not exceeding the then-current Collateral Requirement. The cost and expense of compliance (including, but not limited to, the reasonable costs, expenses, and attorneys' fees of the Beneficiary Party and, if applicable, the LC Issuer) shall be the sole obligation of, and paid directly by, the Posting Party. If the Beneficiary Party pays any such cost or expense, the Posting Party shall reimburse the Beneficiary Party for each such cost and expense promptly following a demand for reimbursement. The Beneficiary Party shall comply with the demand on or before the Reduction Deadline.

“Excess Performance Assurance” is an amount, calculated as of the date of the demand and rounded down to the nearest integral multiple of the Rounding Amount, which is equal to (x) less (y) , but no less than zero, where:

(x) is the sum of

- (i) the Value of Performance Assurance excluding the Independent Amount previously provided by or credited to the Posting Party for the benefit of the Beneficiary Party and not released as of the time the Posting Party made the demand, plus
- (ii) the Collateral Threshold applicable to the Posting Party.

(y) is the net sum of

- (i) any Slice Collateral Component
 - (ii) any further and additional amounts due for rendered performance by either Party A or Party B under any Slice Contract, whether or not invoiced or due.
- (b) Netting. The foregoing notwithstanding, Party B’s obligations to Deliver Performance Assurance under Section 4 of this Collateral Annex, and Party A’s obligations to release and return Performance Assurance under Section 5, at any time shall be determined on a net basis.
- (c) Return of All Performance Assurance. No later than one (1) Business Day after the last to occur of (i) the Termination Date, and (ii) (A) completion of all outstanding transactions between the Parties under the Agreements or (B) if all such outstanding transactions have not been completed, then payment by the Posting Party of all amounts due to the Beneficiary Party under the Agreements with respect to uncompleted transactions, the Beneficiary Party shall return all outstanding Performance Assurance and the Independent Amount to the Posting Party less any amounts applied to the satisfaction of any of the Posting Party’s Obligations.
- (d) Substitution of Performance Assurance. Unless (i) an Event of Default has occurred and is continuing where the Posting Party is the Defaulting Party, (ii) a Potential Event of Default exists where the Posting Party is the potentially Defaulting Party, or (iii) an Early Termination has occurred or been designated with respect to the Posting Party pursuant to which the Posting Party has not satisfied all Obligations, the Posting Party may substitute Performance Assurance for existing Performance Assurance of equal value. The Posting Party must give

notice of the substitution to the Beneficiary Party two (2) Business Days before the substitution is intended to occur no later than 2:00 p.m. PPT. The notice must include a draft of the substitute Letter of Credit. The Posting Party may affect the substitution no earlier than two (2), and no later than five (5), Business Days after giving such notice. If the substitute Performance Assurance is not a Letter of Credit (in form consistent with this Collateral Annex), the substitution shall not be made unless the Beneficiary Party consents in writing thereto. No later than one Business Day after the Beneficiary Party receives substitute Performance Assurance in accordance with this Section, the Beneficiary Party shall transfer the Performance Assurance that has been replaced to the Posting Party. Notwithstanding anything herein to the contrary, no such substitution shall be permitted unless after giving effect to such substitution, the value of such substitute Performance Assurance shall equal the greater of the Posting Party's Collateral Requirement or the Posting Party's Minimum Transfer Amount. The substituted Performance Assurance shall be subject to and governed by the terms and conditions of this Collateral Annex.

6. **Administration of Performance Assurance.**

- (a) **Letters of Credit.** Performance Assurance provided in the form of a Letter of Credit shall be subject to the following provisions, provided, that nothing in this Section 6(a) is intended to modify any terms and conditions contained in any Letter of Credit that apply to draws thereon and it is recognized that the Parties may agree to additional terms and conditions not stated herein.
- (i) The Posting Party shall maintain for the benefit of the Beneficiary Party any Letter of Credit provided as Performance Assurance in accordance with Section 4 of this Collateral Annex. The Posting Party shall (a) renew or cause the renewal of each outstanding Letter of Credit not less than forty-five (45) days prior to its expiration in accordance with the terms contained in the applicable Letter of Credit (the "Extension Deadline"), (b) if the LC Issuer has indicated its intent not to renew such Letter of Credit, provide a replacement Letter of Credit issued by a LC Issuer in the same face amount and on substantially the same terms as the outstanding Letter of Credit (each, a "Replacement Letter of Credit"), at least forty-five (45) days prior to the expiration of the applicable Letter of Credit, and (c) if the LC Issuer shall fail to honor the Beneficiary Party's request to draw on an outstanding Letter of Credit in accordance with the terms thereof, provide for the benefit of the Beneficiary Party a Replacement Letter of Credit within one (1) Business Day after such refusal, provided, that, as a result of the Posting Party's failure to perform in accordance with (a), (b), or (c) above, the Posting Party's Collateral Requirement would be greater than zero. The foregoing notwithstanding, the Beneficiary Party may reject a Replacement Letter of Credit that conforms to the requirements of this Section if in the Beneficiary Party's sole discretion acceptance of additional credit from the applicable LC Issuer would be an unacceptable credit risk due to other commitments it had

accepted from such LC Issuer, provided, that in the event of such rejection, the Beneficiary Party shall pay any excess costs incurred by the Posting Party in obtaining a Replacement Letter of Credit from a different LC Issuer. Rejection of a Replacement Letter of Credit under the immediately prior sentence shall not relieve a Posting Party of its obligations to maintain adequate Performance Assurance at all times under this Collateral Annex.

- (ii) Upon the occurrence of a Letter of Credit Default, the Posting Party shall deliver to the Beneficiary Party a Replacement Letter of Credit on or before the first Business Day after the occurrence thereof (or the fifth (5th) Business Day after the occurrence thereof if only clause (a) under the definition of Letter of Credit Default applies), in such amounts that on the day such Replacement Letter of Credit is provided the Collateral Requirement is zero.
- (iii) In the specific circumstance where (1) a Letter of Credit Default has occurred and is continuing (e.g. because the issuer thereof is no longer a LC Issuer or such Letter of Credit is scheduled to terminate or expire in less than forty-five (45) days), and (2) the Posting Party has not Delivered additional Performance Assurance or a Replacement Letter of Credit as required hereunder, the Beneficiary Party shall be entitled to draw in whole or part on the related Letter of Credit, and the proceeds of such draw shall be held as Performance Assurance hereunder in accordance with the terms and conditions of this Agreement.
- (iv) Upon or at any time after the occurrence of an Event of Default that is continuing where the Posting Party is the Defaulting Party, or if an Early Termination has occurred or been designated with respect to the Posting Party pursuant to which the Posting Party has not satisfied all of its Obligations, then the Beneficiary Party may draw on the entire, undrawn portion of any outstanding Letter of Credit in accordance with its terms. Notwithstanding the Beneficiary Party's receipt of Cash under the Letter of Credit, the Posting Party shall remain liable for any failure to transfer sufficient Performance Assurance and for any Obligations owing to the Beneficiary Party and remaining unpaid after the application of the amounts so drawn by the Beneficiary Party.
- (v) In all cases, the costs and expenses (including but not limited to the reasonable costs, expenses, and attorneys' fees of the Beneficiary Party) of establishing, renewing, substituting, reissuing, canceling, reducing and increasing the face amount of (as the case may be) a Letter of Credit shall be paid by the Posting Party, or if paid by the Beneficiary Party, promptly reimbursed by the Posting Party following the Beneficiary Party's demand for reimbursement.

- (b) Performance Assurance in Forms Other than Letters of Credit. The Parties may by written agreement agree that a Party may provide Performance Assurance in forms other than Letters of Credit, and may agree to additional terms and conditions respecting such Performance Assurance.
- (c) Care of Performance Assurance. Except for duties to comply with all requirements concerning Performance Assurance stated herein, the Beneficiary Party shall have no duty as to any Performance Assurance in its possession or control or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Beneficiary Party, shall at all times retain possession or control of Performance Assurance delivered to it. To the extent if any that this Section 6(c) is inconsistent with UCC § 9-207, this Section 6(c) shall control.

7. Beneficiary Party's Exercise of Rights Concerning Performance Assurance.

- (a) In the event that (x) an Event of Default has occurred and is continuing where the Posting Party is the Defaulting Party or (y) an Early Termination has occurred or been designated under the Agreements or in respect of any transaction thereunder for which the Posting Party has not satisfied all of its Obligations, the Beneficiary Party may exercise any one or more of the rights and remedies provided under the applicable Agreement, under this Collateral Annex or as otherwise may be available under applicable law. Without limiting the foregoing, if at any time (x) or (y) has occurred, then the Beneficiary Party may, in its sole discretion, declare all Obligations immediately due and payable without presentment, demand, notice, protest or other formalities of any kind (all of which are hereby expressly waived by the Posting Party) and exercise any one or more of the following rights and remedies:
 - (i) All rights and remedies available to the Beneficiary Party under UCC Article 9 or the uniform commercial code of any jurisdiction in which the Performance Assurance is being held and any other applicable jurisdiction and other applicable laws with respect to the preservation of or foreclosure upon collateral.
 - (ii) The right to set off any Performance Assurance held by or for the benefit of the Beneficiary Party against and in satisfaction of any amount payable by the Posting Party in respect of any of its Obligations.
 - (iii) The right to draw the full undrawn face amount of each outstanding Letter of Credit issued for its benefit to the extent necessary to satisfy the Obligations of the Posting Party.
 - (iv) The right to liquidate any Performance Assurance held by or for the benefit of the Beneficiary Party, free from any claim or right of any nature whatsoever of the Posting Party, and to apply the proceeds received following the exercise of the rights and remedies set forth above as

follows (A) first, to the payment of (1) all costs and expenses relating to the sale of any Performance Assurance and collection of amounts owing hereunder, including reasonable attorneys' fees and disbursements and the just compensation of the Beneficiary Party for services rendered in connection therewith or in connection with any proceeding to sell if a sale is not completed, and (2) all charges, expenses and advances incurred or made by the Beneficiary Party in order to protect the lien provided under this Collateral Annex; (B) second, to the payment in full of all of the Obligations owed to the Beneficiary Party hereunder and under the Agreements in such order as the Beneficiary Party may elect; and (C) third, the balance, if any, shall be paid to the Posting Party.

- (b) The Posting Party hereby irrevocably constitutes and appoints the Beneficiary Party and any officer or agent thereof, with full power of substitution, as the Posting Party's true and lawful attorney-in-fact (which appointment shall be coupled with an interest) with full irrevocable power and authority to act in the name, place and stead of the Posting Party or in the Beneficiary Party's own name, from time to time in the Beneficiary Party's discretion, solely for the purpose of taking any and all action and executing and delivering any and all documents or instruments which may be necessary or desirable to accomplish the purposes of Section 7(a). Notwithstanding the foregoing, the Beneficiary Party shall not be obligated to exercise any right or duty as attorney-in-fact, and shall have no duties to the Posting party in connection therewith.
- (c) The Posting Party shall in all events remain liable to the Beneficiary Party for any amount payable by the Posting Party in respect of any of its Obligations remaining unpaid after any such liquidation, application and set off and the Beneficiary Party shall have the right to proceed against the Posting Party for any such deficiency.

8. Posting Party's Exercise of Rights Concerning Performance Assurance.

If at any time (a) an Event of Default has occurred and is continuing where the Beneficiary Party is the Defaulting Party, or (b) an Early Termination has occurred or been designated under the Agreements or with respect to any transactions thereunder for which the Beneficiary Party has not satisfied all of its Obligations, then:

- (i) within three (3) Business Days of occurrence, the Beneficiary Party will be obligated to transfer all Performance Assurance (including any Letter of Credit) in excess of the Posting Party's Obligations to the Beneficiary Party, to the Posting Party;
- (ii) the Posting Party may do any one or more of the following: (a) exercise any of the rights and remedies of a pledgor with respect to the Performance Assurance, including any such rights and remedies under law then in effect; (b) to the extent that Performance Assurance is not transferred to the Posting Party as required in (i) above, setoff amounts payable to the Beneficiary Party against the

Performance Assurance (other than Letters of Credit) held by the Beneficiary Party or to the extent its rights to setoff are not exercised, withhold payment of any remaining amounts payable by the Posting Party, up to the value of any Performance Assurance that has not been so transferred, until the Performance Assurance is transferred to the Posting Party; (c) exercise rights and remedies available to the Posting Party under the terms of any Letter of Credit; and (d) exercise any applicable rights and remedies available to the Posting Party under the Agreements; and

(iii) the Beneficiary Party shall be prohibited from drawing on any Letter of Credit that has been posted by the Posting Party for its benefit in excess of the Posting Party's Obligations to the Beneficiary Party under the Agreements and hereunder.

9. **Covenants; Representations and Warranties; Miscellaneous.**

- (a) The Posting Party will execute and deliver to the Beneficiary Party (and to the extent permitted by applicable law, the Posting Party hereby authorizes the Beneficiary Party to execute and deliver, in the name of the Posting Party or otherwise) such financing statements, assignments and other documents and do such other things relating to the Performance Assurance and the security interest granted under this Collateral Annex including any action the Beneficiary Party may deem necessary or appropriate to perfect or maintain perfection of its security interest in the Performance Assurance, and the Posting Party shall pay all costs relating to its delivery of Performance Assurance and the maintenance and perfection of the security interest therein.
- (b) On each day on which Performance Assurance is held under this Collateral Annex by the Beneficiary Party, the Posting Party hereby represents and warrants that:
- (i) the Posting Party has good and marketable title to and is the sole owner of such Performance Assurance, and the execution, delivery and performance of the covenants and agreements of this Collateral Annex, do not result in the creation or imposition of any lien or security interest upon any of its assets or properties, including, without limitation, the Performance Assurance, other than the security interests and liens created under the Agreements and this Collateral Annex;
- (ii) upon the transfer of Performance Assurance by the Posting Party to the Beneficiary Party for the benefit of the Beneficiary Party, the Beneficiary Party shall have a valid and perfected first priority continuing security interest therein, free of any liens, security interests, claims or encumbrances, except those liens, security interests, claims or encumbrances arising by operation of law that are given priority over a perfected security interest;

- (iii) it is not and will not become a Party to or otherwise be bound by any agreement, other than the Agreements and this Collateral Annex, or amendments thereto, which restricts in any manner the rights of any present or future holder of any of the Performance Assurance with respect hereto; and
 - (iv) No approval or authorization by, and no filing with or consent of, any federal, state, local, municipal or other government agency, department or regulatory authority is required either (A) for the grant by the Posting Party of the liens granted hereby or for the execution, delivery or performance of this Collateral Annex by the Posting Party or (B) for the perfection (except for filing of any financing statements in the jurisdictions identified in writing by the Posting Party) of the liens created hereby or the exercise by the Beneficiary Party of the rights and remedies hereunder.
- (c) This Collateral Annex has been and is made solely for the benefit of the Parties and their permitted successors and assigns, and no other person, partnership, association, corporation, or other entity shall acquire or have any right thereunder or by virtue of this Collateral Annex.
- (d) Each Party represents and warrants to the other Party that (i) it has all requisite power and authority to execute and deliver this Collateral Annex, to consummate the transactions contemplated hereby and to perform its respective obligations hereunder; (ii) it has taken all necessary action to authorize the execution, delivery and performance of this Collateral Annex and (iii) this Collateral Annex has been duly executed and delivered and, when executed and delivered by the other Party, will constitute the legal, valid and binding obligation of such Party enforceable against it in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, moratorium or similar laws affecting the rights of creditors generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law).
- (e) As of the date a Party executes this Collateral Annex, the Cover Sheet Elections, or Security Agreement, or any amendment thereto, such Party is a member in good standing of the WSPP, Inc. or has signed a WSPP Agreement.
- (f) In the event litigation is commenced by either Party to enforce this Collateral Annex or collect any amounts required to be paid, provided or transferred hereunder, each Party agrees to pay the other Party for all reasonable attorneys' fees, disbursements, and court costs incurred by the prevailing Party in such litigation.
- (g) No delay or forbearance by any Party or its agents in exercising any right, power, privilege, or remedy accruing to such Party upon the occurrence of any breach or default by the other Party under this Collateral Annex, and no course of dealing

between the Parties, shall impair any such right, power or remedy of the non-defaulting Party, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of a Party of any such breach or default under this Collateral Annex, or any waiver on the part of any non-defaulting Party hereto of any provision or condition of this Collateral Annex, must be in writing or electronic mail and shall be effective only to the extent specifically set forth in such communication. This Collateral Annex may be amended only by a document executed by the Parties.

- (h) Each demand, notice, consent, agreement, approval or other communication required or permitted to be given from one Party to the other Party under this Collateral Annex shall be provided in writing (unless expressly provided otherwise) and shall be submitted by recognized overnight courier service or telefacsimile addressed to the recipient Party at its address or telefacsimile number set forth in Part IX of the Cover Sheet Elections or as changed by notice to the other Party. Email communications shall be permitted for all purposes of this Collateral Annex, except as provided below, to the extent and following the protocols, set forth in the Cover Sheet Elections. All such notices, requests, demands, approvals and other communications shall be deemed to have been duly given, received and effective when: (a) received if personally delivered; (b) on the day transmitted (unless transmitted after 2:00 p.m. PPT at the place of receipt or on a day that is not a Business Day, in which case it shall be deemed received on the next Business Day), if transmitted by facsimile transmission and the sender's facsimile machine has received the correct answerback of the addressee and confirmation of uninterrupted transmission by a transmission report or the recipient confirming by telephone to sender that he has received the facsimile message; (c) the day immediately following the day it is sent, if sent for next day delivery to a domestic address by a nationally-recognized overnight courier or delivery service; (d) on the day of receipt, if sent by certified or registered mail, return receipt requested; and (e) on the date actually received, if sent or delivered by any other means; provided, that any notice, demand, request or other communication made or delivered in connection with an alleged breach or default hereunder (including an Event of Default) shall only be delivered personally or by a nationally-recognized overnight courier or delivery service. Whenever this Collateral Annex provides that a demand, notice, consent, agreement, approval or other communication shall be provided in "writing" or shall be provided in "written" form, such demand, notice, consent, agreement, approval or other communication shall only be effective hereunder if provided by a manually signed original, photocopy or telefacsimile copy from the Party or Parties to be bound thereby.
- (i) The headings in this Collateral Annex are for convenience of reference only, and shall not affect the meaning or construction of any provision thereof.

- (j) This Collateral Annex shall be governed by, and construed and interpreted in accordance with, the laws of the State of Washington except to the extent that the perfection, the effect of perfection or nonperfection and the priority of the security interest granted hereunder, or remedies hereunder, are governed by provisions of the UCC, including but not limited to UCC §§ 9-104, 9-301, 9-303, 9-304, 9-305, 9-306 and 9-307, that may call for the application of the laws of jurisdictions other than the State of Washington.
- (k) This Collateral Annex may be executed in one or more counterparts, all of which, when taken together, shall constitute one and the same instrument and each of the Parties hereto may execute this Collateral Annex by signing any such counterpart.

IN WITNESS HEREOF, the Parties have caused this Collateral Annex to be duly executed effective as of the date first written above.

Party A

Public Utility District No. 1 of Chelan County

Mark Mullins
[Sign here]

Mark Mullins
Mark Mullins

Director – Enterprise Risk Management
Title

Date: 10/2/14

Party B

Avista Corporation

Jason R. Thackston
[Sign here]

Jason R. Thackston
[Print name]
Senior VP, Energy Resources

Title

Date: 10/1/14

Appendix A to Collateral Annex

CALCULATION OF SLICE COLLATERAL COMPONENT Under SECTIONS 4 AND 5 OF COLLATERAL ANNEX

This Appendix sets forth the methodology for calculating the Slice Collateral Component under Sections 4 and 5 of the Collateral Annex in relation to the Slice Contracts. Calculations shall only be made on a Business Day. The District, pursuant to Section 4(e) of the Collateral Annex, shall serve as the Calculation Agent for purposes of the calculations under this Appendix A, and its determinations, as made in good faith, shall be conclusive, final and binding on the parties absent manifest error. The calculations described below have been illustrated in an example attached at the end of this Appendix A to aid in clarity.

The parties have elected this methodology as a rough approximation of payments that might become due under Section 16 of any Slice Contract, were they to terminate on the calculation date.

1. Determine Contract Price and Contract Quantity for each Delivery Period at time of agreement execution.
 - a) Assume median annual energy for the Rocky Reach Project and the Rock Island Project is 1,060aMW (net of CEAs and encroachment) and multiply by purchaser's percentage for each respective Delivery Period, as shown in Section 3 of the Slice Contract, to determine the Purchaser's median annual energy (aMW).
 - b) Determine the Delivery Period Contract Quantity (MWh) by multiplying the number of hours in Delivery Period by the amount in (1a).
 - c) Determine the Purchaser's Delivery Period Payments (\$) as shown on Appendix B to the Slice Contract for each respective Delivery Period.
 - d) Divide each Delivery Period Payment (\$) by that Delivery Period Contract Quantity (MWh) to determine Delivery Period Contract Price (\$/MWh).
 - e) Determine Flat Mid-C Forward Market Price at time of contract execution for each Delivery Period.
 - f) Determine Delivery Period Pricing Shaping Adjustment Factor by dividing the Delivery Period Contract Price (\$/MWh) (1d) for each Delivery Period by the Delivery Period Flat Mid-C Forward Market Price for each Delivery Period at time of contract execution (1e).
2. Determine the Delivery Period Gain/Loss Amount for future Delivery Periods.
 - a) Determine Flat Mid-C Forward Market Price for each future Delivery Period on the date of calculation.
 - b) Multiply the Flat Mid-C Forward Market Price (2a) by the Delivery Period Pricing shaping adjustment factor from (1f) to determine the Delivery Period Replacement Price (\$/MWh).
 - c) For each future Delivery Period, subtract the Delivery Period Contract Price (\$/MWh) (1d) from the Delivery Period Replacement Price (\$/MWh) (2b).

- d) Calculate the Delivery Period Gain/Loss Amount for future Delivery Periods by multiplying the Delivery Period Contract Quantity (1b) by the differential price calculated in (2c).
3. Determine the Delivery Period Gain/Loss Amount for the current Delivery Period.
- a) The District will determine the generation estimate for the months remaining in the current Delivery Period, commencing with the Prompt Month, using the Northwest River Forecast Center's Forecast and/or the Median Water Forecast for the remainder of the current Delivery Period (the "Remaining Current Delivery Period Output"). The District will then multiply the Remaining Current Delivery Period Output estimate by the Purchaser's Slice Percentage for the current Delivery Period as set forth in Section 3 of the Slice Contract to establish the Current Delivery Period Remaining Replacement Quantity (MWh).
 - b) Sum all future Delivery Period Payment Installments beginning with the installment due in the Prompt Month through the end of the current Delivery Period.
 - c) Determine the Remaining Delivery Period Market Price on the date of calculation for Current Delivery Period Remaining Replacement Quantity (3a) by multiplying the monthly Flat Mid C Forward Market Prices by the respective monthly amounts of the Current Delivery Period Remaining Replacement Quantity (3a) and then divide the sum of those monthly dollar amounts by the total Current Delivery Period Remaining Replacement Quantity from (3a).
 - d) Multiply the Remaining Delivery Period Market Price (3c) by the Delivery Period Pricing Shaping Adjustment Factor from (1f) to determine the Current Delivery Period Replacement Price (\$/MWh).
 - e) Multiply the Current Delivery Period Replacement Price (3d) by the total Current Delivery Period Remaining Replacement Quantity (3a) and then subtract the sum of the future Delivery Period Payment Installments, beginning with the installment owed for the Prompt Month (3b) and net the Delivery Period Payment Installment and amounts due under Section 6 of the Slice Contract, in each case that are due on the 20th of the month following the calculation date to determine the Current Delivery Period Gain/Loss Amount for the current year.
4. Determine the Slice Collateral Component.
- a) Aggregate or net the future and current Delivery Period Gain/Loss Amounts calculated in (2d) and (3e) into a single gain or loss amount.
 - b) Determine the total amounts unpaid for rendered performance by Party A to Party B under the Slice Contract in all months prior to the date of calculation, whether or not invoiced or due.
 - c) The Slice Collateral Component is the aggregation of the amounts under Paragraphs 4(a) and 4(b).

As used in this Appendix, the following terms shall have the meanings ascribed to them below:

- (1) "Contract Price" means the price in \$/MWh calculated by dividing the Delivery Period Payment (\$) by the Delivery Period Contract Quantity (MWh).

- (2) "Current Delivery Period Remaining Replacement Quantity" means the amount of energy in MWh of Purchaser's Output for the remainder of the current Delivery Period (beginning with the Prompt Month after the calculation date) as calculated by the District pursuant to Paragraph 3(a) of this Appendix A.
- (3) "Current Delivery Period Replacement Price" means the price in \$/MWh determined pursuant to Paragraph 3(d) of this Appendix A.
- (4) "Delivery Period" means, as applicable, one or more of the delivery periods described in Section 3 of the Slice Contract(s).
- (5) "Delivery Period Contract Quantity" means the amount of energy in MWh of Purchaser's Output during the Delivery Period determined pursuant to Paragraph 1(b) of this Appendix A.
- (6) "Delivery Period Contract Price" means the amount per MWh determined pursuant to Paragraph 1(d) of this Appendix A.
- (7) "Delivery Period Payment" means the amount in United States funds to be paid by Purchaser to the District for the purchase of the Purchaser's Output during each Delivery Period as defined in Section 3 of the Slice Contract.
- (8) "Delivery Period Payment Installments" means the amount in United States funds to be paid by Purchaser to the District for the purchase of the Purchaser's Output Percentage during each Delivery Period divided by the number of months in the Delivery Period.
- (9) "Delivery Period Pricing Shaping Adjustment Factor" means the Delivery Period Contract Price (\$/MWh) divided by the Flat Mid-C forward market price at the time of Contract execution.
- (10) "Delivery Period Replacement Price" means the price in \$/MWh determined pursuant to Paragraph 2(b) of this Appendix A.
- (11) "Delivery Period Gain/Loss Amount" means the amount in \$US equal to the economic advantage or disadvantage, if any, (exclusive of Costs) resulting from the termination of this Contract for such Delivery Period, determined by the District pursuant to this Appendix A.
- (12) "Flat Mid C Forward Market Price" means the price (\$/MWh) for 1MWh for every hour of the respective Delivery Period. The District may consider, among other valuations, quotations from dealers in energy contracts, end-users of relevant products, brokers, any of the settlement prices of the NYMEX power futures contract (or NYMEX power options contracts in the case of Physically-Settled Options), ICE (Intercontinental Exchange trading platform for physical and financial contracts) and other bona fide third party offers, all adjusted for the length of the remaining term and differences in transmission.

- (13) "Median Water Forecast" means the median flows based on at least 70 years of re-regulated flows as determined by the District.
- (14) "Northwest River Forecast Center's Forecast" means the most recent long-range forecast of water supply volume forecasts for Grand Coulee Dam on the Columbia River issued by the Northwest River Forecast Center or successor entity. This forecast may also be provided by another recognized regional third party water supply forecaster.
- (15) "Prompt Month" means the month following the date of calculation.
- (16) "Remaining Current Delivery Period Output" means the amount determined pursuant to Paragraph 3(a) of this Appendix A.
- (17) "Remaining Delivery Period Market Price" means the weighted market price determined pursuant to Paragraph 3(c) of this Appendix A.
- (18) "Slice Collateral Component" means the sum of the future and current Delivery Period Gain/Loss Amounts, netted into a single payment as set forth in Paragraph 4(a), and aggregated with the receivables described in Paragraph 4(b) of this Appendix A.

Example Calculation for Purposes of Determining the Collateral Requirement Related to the Output Contract
(Example to Appendix A to Collateral Annex)

Appendix A Reference

Delivery Period Dates	Median Annual Energy for Chilean Power System (MWh)	Purchaser's Percentage	Purchaser's Median Annual Energy (MWh) (L)	Hours in Delivery Period	Delivery Period Contract Quantity (MWh) (2)	Delivery Period Payments (\$/MWh) (4)	Flat Mid C Forward Price on Date of Contract Execution (\$)	Delivery Period Pricing Shaping Adjustment Factor (5)
January 1, 2015 - December 31, 2015	1060	2.50%	27	8780	216,520	44.39	42.00	105.70%
January 1, 2016 - December 31, 2016	1060	2.50%	27	8784	217,168	46.38	45.00	103.07%
January 1, 2017 - December 31, 2017	1060	2.50%	27	8780	216,520	48.62	47.00	103.45%
January 1, 2018 - December 31, 2018	1060	2.50%	27	8780	216,520	50.74	48.00	103.54%
January 1, 2019 - December 31, 2019	1060	2.50%	27	8780	216,520	52.85	53.00	96.72%

Calculation for Future Delivery Periods (assuming calculation date is September 15, 2015)

Appendix A Reference

Delivery Period Dates	Flat Mid C Forward Price on Collateral Calculation Date (\$)	Delivery Period Replacement Price (\$/MWh) (6)	Delivery Period Replacement Price - Delivery Period Contract Gain/Loss Amount (\$) - District (revenue) (7)
January 1, 2016 - December 31, 2016	43.00	44.32	(188,888.89)
January 1, 2017 - December 31, 2017	46.00	47.59	(244,880.85)
January 1, 2018 - December 31, 2018	50.00	51.77	(244,897.96)
January 1, 2019 - December 31, 2019	55.00	54.84	471,998.11
			<u>(116,973.67)</u>

Calculation for the Current Delivery Period (assuming calculation date is September 15, 2015)

10,500,000

Appendix A Reference

Remaining Months for Current Delivery Period (Delivery Period 1)	Remaining Output Estimate for Chilean Power System (MWh)	Hours in Month	Remaining Current Delivery Period Output (MWh) (8)	Purchaser's Percentage	Current Delivery Period Remaining Replacement Quantity (MWh) (9)	Future Delivery Period Payment Installments (\$) (10)	Monthly Flat Mid C Forward Price - Current Delivery Period Remaining Replacement (\$/MWh) (11)	Flat Mid C Forward Price on Date of Contract Execution (\$)	Current Delivery Period Remaining Replacement Period Net Price Replacement Price (\$/MWh)	Current Delivery Period Period Gain/Loss Amount (\$) - District (revenue) (13)
Slice Product 16 - Oct 2015	794	720	590,736	2.50%	14,768	875,000.00	44.39	42.00	44.77	47.32
Slice Product 16 - Nov 2015	809	720	604,368	2.50%	15,109	875,000.00	46.00	45.00		
Slice Product 16 - Dec 2015	828	744	600,223	2.50%	15,508	875,000.00	713,798.57	48.00		
							793,388.10	53.00		
										<u>(116,973.67)</u>

Total Slice Collateral Component- Districts (revenues)

Future Delivery Period Gain/Loss Amount	(116,973.67)
Current Delivery Period Gain/Loss Amount	(1,246,005.47)
Net Gain/Loss Amount	<u>(1,362,979.13)</u>
Services Rendered in Prior Months	(675,000.00)
Total Slice Collateral Component	<u>(2,037,979.13)</u>
Collateral Threshold assigned to counterparty	2,000,000.00
Value of Performance Assurance previously posted	
Collateral Requirement prior to Reaming	<u>(37,979.13)</u>
Collateral Requirement	<u>(1,667,979.00)</u>

Footnotes:

- (1) Purchaser's Median Annual Energy for Rocky Reach or Chilean Power System * Purchaser's Percentage
- (2) Delivery Period Contract Quantity * Purchaser's Median Annual Energy * Hours in Delivery Period
- (3) Total funds to be paid by Purchaser to District for the purchase of the Purchaser's Output during each Delivery Period
- (4) Delivery Period Contract Price = Delivery Period Payment / Delivery Period Contract Quantity
- (5) Delivery Period Pricing Shaping Adjustment Factor = Delivery Period Contract Price / Flat Mid C Forward Price on Date of Contract Execution
- (6) Delivery Period Replacement Price = Flat Mid C Forward Price on Collateral Calculation Date * Delivery Period Pricing Shaping Adjustment Factor
- (7) Future Delivery Period Gain/Loss Amount = Delivery Period Contract Quantity * (Delivery Period Replacement Price - Delivery Period Contract Price)
- (8) Remaining Current Delivery Period Output = Remaining Output Estimate * Hours in Month
- (9) Current Delivery Period Remaining Replacement Quantity = Remaining Current Delivery Output * Purchaser's Percentage
- (10) Future Delivery Period Payment Installments = Current Delivery Period Payment / # of Months in Delivery Period
- (11) Remaining Delivery Period Market Price = Sum of (Monthly Flat Mid C Forward Price * Current Delivery Period Remaining Replacement Quantity) / Sum of Current Delivery Period Remaining Replacement Quantity
- (12) Current Delivery Period Replacement Price = Remaining Delivery Period Market Price * Delivery Period Pricing Shaping Adjustment Factor
- (13) Current Delivery Period Gain/Loss Amount = Sum of (Current Delivery Period Remaining Replacement Quantity * Remaining Delivery Period Market Price) - Sum of Future Delivery Period Payment Installments - Delivery Period Payment installment due on the 20th of the month following the calculation date

COVER SHEET ELECTIONS
applicable to the
COLLATERAL ANNEX
to the
CONTRACT(S) FOR SALE OF OUTPUT
FROM THE ROCKY REACH PROJECT AND ROCK ISLAND PROJECT AND THE
CONTRACT FOR SALE OF OUTPUT FROM THE ROCKY REACH PROJECT AND
CHELAN POWER SYSTEM

This Cover Sheet Elections applicable to the Collateral Annex to the Contract(s) for Sale of Output from the Rocky Reach Project and Rock Island Project and the Contract for Sale of Output from the Rocky Reach Project and Chelan Power System ("Cover Sheet Elections") between the Parties is between: Public Utility District No. 1 of Chelan County, Washington ("Party A") and Avista Corporation ("Party B).

This Cover Sheet Elections shall be effective as of October 2, 2014 (the "Effective Date") and supersedes the Cover Sheet Elections between the Parties signed January 19, 2012.

This Cover Sheet Elections sets forth the Parties' agreements to supplement the Collateral Annex and, as the Parties may determine, vary the terms and conditions of the Collateral Annex. To the extent there are any inconsistencies between the terms and conditions of the Collateral Annex, excluding the Cover Sheet Elections, and these Cover Sheet Elections, the Cover Sheet Elections shall prevail.

Terms that are capitalized for reasons other than grammatical reasons shall have the meanings assigned to them in Section 1 of the Collateral Annex.

The Collateral Threshold, Independent Amount, Minimum Transfer Amount and Rounding Amount, shall each be zero (0) unless a different amount is stated below.

I. Collateral Threshold.

A. Party A Collateral Threshold.

The Collateral Threshold for Party A shall be (a) the amount set forth in the chart below under the heading "Collateral Threshold" opposite the Credit Rating for Party A on the relevant date of determination, and if such Credit Ratings shall not be equivalent, the lower Credit Rating shall govern, or (b) zero if on the relevant date of determination none of the rating agencies specified below has a Credit Rating in effect with respect to Party A or in the event of a Material Adverse Change as defined in Part II hereof with respect to Party A:

<u>Collateral Threshold</u>	<u>S&P Credit Rating</u>	<u>Moody's Credit Rating</u>	<u>Fitch Credit Rating</u>
\$ Unlimited	AAA (or above)	Aaa (or above)	AAA(or above)
\$ Unlimited	AA+	Aa1	AA+
\$ Unlimited	AA	Aa2	AA
\$ Unlimited	AA-	Aa3	AA-
\$ Unlimited	A+	A1	A+
\$ Unlimited	A	A2	A
\$ Unlimited	A-	A3	A-
\$ Unlimited	BBB-	Baa3	BBB-
\$ Unlimited	Below BBB-	Below Baa3	Below BBB-

B. Party B Collateral Threshold.

The Collateral Threshold for Party B, or its Guarantor, shall be (a) the amount set forth in the chart below under the heading "Collateral Threshold" opposite the Credit Rating for Party B on the relevant date of determination, and if such Credit Ratings shall not be equivalent, the lower Credit Rating shall govern, or (b) zero if on the relevant date of determination none of the rating agencies specified below has a Credit Rating in effect with respect to Party B or in the event of a Material Adverse Change as defined in Part II hereof with respect to Party B:

<u>Collateral Threshold</u>	<u>S&P Credit Rating</u>	<u>Moody's Credit Rating</u>	<u>Fitch Credit Rating</u>
\$20,000,000	AAA	Aaa	AAA
\$20,000,000	AA+	Aa1	AA+
\$20,000,000	AA	Aa2	AA
\$20,000,000	AA-	Aa3	AA-
\$15,000,000	A+	A1	A+
\$10,000,000	A	A2	A
\$8,000,000	A-	A3	A-
\$6,000,000	BBB+	Baa1	BBB+
\$4,000,000	BBB	Baa2	BBB
\$2,000,000	BBB-	Baa3	BBB-
\$0	Below BBB-	Below Baa3	Below BBB-

II. Material Adverse Change.

A. Party A

A Material Adverse Change shall occur with respect to Party A in the following circumstances:

Not applicable.

B. Party B

A Material Adverse Change shall occur with respect to Party B in the following circumstances:

An Event of Default shall have occurred and is continuing where Party B is the Defaulting Party, or a Potential Event of Default has occurred where Party B is the potentially Defaulting Party, or an Early Termination has occurred or been designated with respect to Party B for which Party B has not satisfied its Obligations.

III. Independent Amount.

- A. Party A Independent Amount: \$ _____ N/A _____
- B. Party B Independent Amount: \$ _____ \$0 _____

If Party B has entered into multiple Slice Contracts with Party A, the Independent Amount to be posted by Party B will be reviewed by Party A upon execution of a new Slice Contract and upon termination or expiration of any Slice Contract between the Parties.

IV. Minimum Transfer Amount.

- A. Party A Minimum Transfer Amount: \$ _____ N/A _____
- B. Party B Minimum Transfer Amount: \$ _____ 100,000 _____

VI. Rounding Amount.

- A. Party A Rounding Amount: \$ _____ N/A _____
- B. Party B Rounding Amount: \$ _____ 10,000 _____

VII. Administration of Collateral.

A. Posting Deadline for Collateral Requirement

Party B shall be required to provide Performance Assurance to cover an outstanding Collateral Requirement under Section 4 of the Collateral Annex no later than 5:00 pm Pacific prevailing time of the same Business Day after receipt of a Demand Notice (the "Posting Deadline"), provided, that if the Demand Notice is sent/received after such time as specified in the Collateral Annex, then the Posting Deadline shall be 24 hours later. Party B may provide an electronic version of a signed Letter of Credit, or signed Amendment to an existing Letter of Credit, to meet the established deadline so long as Party A receives the executed original by mail the following Business Day.

B. Reduction Deadline for Transfer of Excess Performance Assurance

Party A shall be required to transfer Excess Performance Assurance to the Posting Party, or LC Issuer in the case of a Letter of Credit, under Section 5 of the Collateral Annex no later than 5:00 pm Pacific prevailing time of the 2nd [second] Business Day after receipt of a demand therefor (the "Reduction Deadline"), provided, that if the demand is sent/received after such time as specified in the Collateral Annex, then the Reduction Deadline shall be 24 hours later. Party A may provide an electronic version of a signed and accepted Amendment to an existing Letter of Credit to meet the established deadline.

VIII. Letters of Credit

A. Definition of LC Issuer:

Maximum amount per LC Issuer: \$ 20,000,000

If the Parties agree that a specific entity shall be an LC Issuer even if may not satisfy the credit rating specified in the definition of LC Issuer set forth in the Collateral Annex, identify such entity here:

If the Parties agree to a different definition of LC Issuer than the definition specified in the Collateral Annex, state such definition here:

B. Definition of Letter of Credit

"Letter of Credit" means an irrevocable, non-transferable, standby letter of credit, issued by an LC Issuer, or other issuer to which the Parties may agree in writing, in a form consistent with the Parties' agreements and otherwise reasonably acceptable to Party A, including, without limitation, terms giving Party A the right to draw on the letter of credit upon the occurrence of the earlier of (a) a payment default by Party B; (b) an Event of Default by Party B; and (c) the commencement of a bankruptcy, receivership, or other proceeding under any applicable law relating to insolvency or corporate reorganization with respect to the Party B.

The Parties may specify here additional terms and conditions that a Letter of Credit shall contain:

IX. Notice and other Communications Under Section 9(h) of Collateral Annex

Each calculation, demand, notice, consent, agreement, approval or other communication required or permitted to be given from one Party to the other Party under the Collateral Annex shall be submitted to the recipient Party at the following physical address or fax:

Party A:

Attention: Credit Manager
Entity: Chelan County PUD
Street: 327 N. Wenatchee Ave
City, State, Zip Code: Wenatchee, WA 98801
Fax No.: 509-661-8138

Party B:

Attention: Patrice K Gordon
Entity: Avista Corporation
Street: 1411 E Mission, P.O. Box 3727
City, State, Zip Code: Spokane, WA 99220-3727
Fax No.: 509-777-8935

With a copy to:

Attn: Troy Irvine
Entity: Avista Corporation
Street: 1411 E Mission, P.O. Box 3727
City, State, Zip Code: Spokane, WA 99220-3727
Fax No.: 509-777-9354

If electronic notification by internet email is the chosen means of communications under the Collateral Annex, the following protocol shall apply:

A. The email shall be addressed to at least two designated employees or agents of the recipient, as listed below or as the same may be changed from time to time by written notice in accordance with the terms hereof and the Collateral Annex.

B. The sender shall have received a reply confirmation of receipt from at least one of the recipients acknowledging receipt of the email within two (2) hours (excluding all non-Business Day hours) of the email delivery (the "Acknowledgement Delivery Time").

C. If an acknowledgment of receipt is not received by the sender by the Acknowledgement Delivery Time, email notification shall not apply to that communication and other means for the delivery of notices as set forth above and in the Collateral Annex shall be followed.

**AGREEMENT TO TERMINATE MASTER CONFIRMATION AGREEMENT TO
WSPP AGREEMENT**

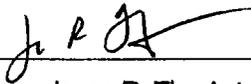
By this Agreement to Terminate Master Confirmation Agreement to WSPP Agreement ("Termination Agreement") made and entered into this 2nd day of October, 2014, by and between Avista Corporation ("Avista") and Public Utility District No. 1 of Chelan County, Washington ("the District"), collectively hereinafter referred to as "Parties", said Parties agree as follows:

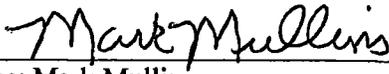
The Parties have entered into a Master Confirmation Agreement to WSPP Agreement dated September 21, 2010.

Avista and the District hereby agree to terminate the Master Confirmation Agreement to WSPP Agreement effective October 2, 2014.

AVISTA CORPORATION

PUBLIC UTILITY DISTRICT NO. 1 OF
CHELAN COUNTY

By: 
Name: **Jason R. Thackston**
Title: **Senior VP, Energy Resources**
Date: 10/1/14

By: 
Name: **Mark Mullins**
Title: **Director-Enterprise Risk Management**
Date: 10/2/14