

**AVISTA UTILITIES
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Washington	DATE PREPARED:	4/6/00
DOCKET NO:	UE-991606	WITNESS:	Kelly Norwood
	UG-991607		
REQUESTER:	WUTC	RESPONDER:	Kelly Norwood
TYPE:	Data Request	DEPT:	Rates
DUE DATE:	4/3/00	TELEPHONE:	(509) 495-4267
REQUEST NO.:	288		

REQUEST:

Please provide all internal memos, studies, analysis, and documents relating to the amendment of or signing of a new Portland General Electric (PGE) capacity sales contract.

RESPONSE:

See attached memos, studies, analysis, and documents. The documents are grouped into four volumes. The first two volumes together include 54 documents which are identified in a table of contents in the front of both volumes. The third volume includes other studies and analyses related to the transaction. The fourth volume includes FERC filings related to the transaction.

A portion of the material from Volumes 1 and 3 is confidential and has been provided under the Company's response labeled Staff Request No. 288 C, pursuant to the Protective Order in this Docket.

WUTC		
DOCKET NO. <u>UE-991606</u>		
EXHIBIT # <u>225</u>		
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ENRON CAPITAL & TRADE RESOURCES CORP.

MONETIZATION OF

AGREEMENT FOR LONG TERM

PURCHASE AND SALE OF FIRM CAPACITY

BETWEEN

PORTLAND GENERAL ELECTRIC COMPANY

AND

THE WASHINGTON WATER POWER COMPANY

December 31, 1998

VOLUME I

of

TWO VOLUMES

ENRON CAPITAL & TRADE RESOURCES CORP.

**MONETIZATION OF
AGREEMENT FOR LONG TERM
PURCHASE AND SALE OF FIRM CAPACITY
BETWEEN
PORTLAND GENERAL ELECTRIC COMPANY
AND
THE WASHINGTON WATER POWER COMPANY**

Transcript of Documents

December 31, 1998

Parties

The Washington Water Power Company ("WWP")
Spokane Energy, L.L.C.
Spokane Energy Funding Trust (the "Trust")
Wilmington Trust Company as Trustee ("Trustee")
Enron Capital & Trade Resources Corp. ("ECT")
Enron Power Marketing, Inc. ("EPMI")
Enron Corporation ("Enron").

Formation of Spokane Energy, L.L.C., a Delaware limited liability company

1. Certificate of Formation
2. Limited Liability Company Agreement
3. Application for authority to do business in Washington State and Idaho

Merger of Spokane Energy, L.L.C., a Washington limited liability company, into Spokane Energy, L.L.C., a Delaware limited liability company.

4. Certificate of Merger
5. Articles of Merger
6. Plan and Agreement of Merger

Power Agreements

7. Capacity Contract between Portland General Electric Company and WWP
8. Amendment to Firm Capacity Contract
- ⊗ 9. Transfer and Assumption Agreement between WWP and Spokane Energy
10. WWP Consent and Agreement
11. Notice and Directive from Spokane Energy and the Servicer to Portland General to remit Capacity Payments on and after the Closing Date directly to Trustee for deposit into the Collection Account and giving notice of change in notice address under Capacity Contract
12. Portland General Consent and Agreement
13. EPMI Contract between Spokane Energy and EPMI
14. Spokane Energy and EPMI consent to collateral assignment of EPMI Contract from Spokane Energy to Trust
15. Performance Guaranty by Enron of EPMI Contract to Spokane Energy and to Trust
16. Bring-Down Certificate from Enron of representations and warranties of Enron under Performance Guaranty
17. EPMI/WWP Contract

Financing Documents

18. Loan and Security Agreement
- ⊗ 19. LLC Note
20. Closing Notice
- ⊗ 21. Cross Receipt: Transfer and Assumption Agreement

22. Cross Receipt: Loan and Security Agreement
23. Declaration of Trust
24. Certificate of Trust as filed with Delaware Secretary of State
25. Evidence of Employer Tax Identification Number
26. Receipt: Funding of Liquidity and Collection Accounts
- ⊗ 27. Service Agreement (CONFIDENTIAL)
- ⊗ 28. Account and Control Agreement

FERC Approvals

29. Assignment of Capacity Contract
30. FERC Order Approving Spokane Energy, L.L.C.'s Application for a Market-Based Tariff
31. Evidence of No Protest

Secretary's Certificates (i.e., incumbency, resolutions, etc.)

32. Manager's Certificate (Spokane Energy, L.L.C.) (with appropriate attachments)
33. Trustee's Certificate (with appropriate attachments)
34. Assistant Secretary's Certificate (WWP) (with appropriate attachments)
35. Assistant Secretary's Certificate (WWP) as to 1992 Resolutions
36. Secretary's Certificate (EPMI) (with appropriate attachments)
37. Assistant Secretary's Certificate (Enron) (with appropriate attachments)
38. Assistant Secretary's Certificate (Portland General)

State Governmental Corporate Certificates

39. Spokane Energy, L.L.C.

- a. Delaware
- b. Washington

40. Trustee (Delaware)

41. WWP (Washington)

42. EPMI

- a. Delaware
- b. Oregon
- c. Washington
- d. Idaho

43. Enron (Oregon)

Legal opinions

44. Opinions of Richards, Layton & Finger:

- a. Trustee
- b. Trust

45. Opinions of Paine, Hamblen, Coffin, Brooke & Miller, L.L.P.,
counsel to WWP and Spokane Energy, L.L.C.

- a. Corporate Matters
- b. Perfection
- c. RBJ Management, Inc.
- d. Officer's Certificate

46. Opinions of Counsel for Enron Corp. and
Enron Capital & Trade Resources Corp.

- a. Opinion of James V. Derrick, Senior Vice President and
General Counsel for Enron
- b. Opinion of Mark Haedicke, Managing Director and
General Counsel of ECT

- c. Opinion of Vinson & Elkins, special New York Counsel for Enron
- 47. Opinions of Liddell, Sapp, Zivley, Hill & LaBoon, L.L.P., as special transaction counsel to Enron and EPMI
 - a. Corporate Matters
 - b. Nonconsolidation and True Sale Opinion
- 48. Opinions of Foster Pepper & Shefelman PLLC, special Washington counsel to EPMI
 - a. True Sale
 - b. Enforceability
- 49. Opinion of Alvin Alexanderson, Senior Vice President, General Counsel and Corporate Secretary of Portland General
- 50. Opinion of Freshfields LLP
- 51. Opinion of LeBoeuf, Lamb, Greene & MacRae L.L.P.
- 52. Opinion of Ater Wynne L.L.P.

Financing Statements (UCC-1s)

- 53. UCC 1 - From WWP to Spokane Energy (to evidence the transfer of the Capacity Contract)
- 54. UCC 1 - From Spokane Energy to the Trust (to perfect the pledge and grant of a security interest in the Collateral)

TRANSFER AND ASSUMPTION AGREEMENT

THIS TRANSFER AND ASSUMPTION AGREEMENT (this "Agreement") by and between The Washington Water Power Company, a Washington corporation ("WWP"), and Spokane Energy, L.L.C., a Washington limited liability company ("LLC"), is dated as of SEPTEMBER 4, 1998.

WHEREAS, WWP and Portland General Electric Company, an Oregon corporation ("PGE"), are parties to an Agreement For Long Term Purchase and Sale of Firm Capacity dated June 26, 1992, as amended (the "Capacity Contract"); and

WHEREAS, WWP desires to assign to LLC, and LLC desires to assume from WWP, all rights and obligations of WWP under the Capacity Contract.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency of which are hereby acknowledged and confessed, WWP and LLC hereby agree as follows:

1. Subject to the conditions set forth in Section 3 below, WWP hereby assigns, transfers and conveys to LLC, and LLC does hereby ratify and assume, all rights, interest, liabilities, debts, duties and obligations of WWP under the Capacity Contract and all of its existing transmission rights necessary to perform the Capacity Contract. WWP and LLC hereby expressly agree that all terms, provisions, restrictions, duties and responsibilities under the Capacity Contract shall apply to LLC as if LLC had itself executed such Capacity Contract. Without limiting the generality of the foregoing, the parties hereto agree that the transfer and conveyance made hereby is without recourse to WWP, and that LLC's sole recourse with respect to any of the rights and obligations under the Capacity Contract, which are transferred to and assumed by it hereunder, shall be against PGE.

2. WWP and LLC agree to promptly execute and deliver any and all such other and further instruments and documents which may be necessary or advisable in order to fully effectuate the transaction set forth herein.

3. The parties hereby acknowledge and agree that the sale and assumption described in Section 1, and the release described in Section 3, are not effective to satisfaction of the following conditions:

- (a) Final approval by the Federal Energy Regulatory Commission ("FERC") of the Amendment to Firm Capacity Contract which will permit the assignment of the Capacity Contract without the consent of the other party;
- (b) Receipt by LLC of a power marketing license from the Federal Energy Regulatory Commission ("FERC");
- (c) Final approval by the FERC of this Transfer and Assumption Agreement;
- (d) Signing and filing with FERC of a firm capacity sales agreement between WWP and Enron Power Marketing, Inc. ("EPMI");
- (e) Signing of a firm capacity sales agreement between LLC and EPMI; and
- (f) Assignment by LLC of its rights to receive all or part of the Capacity (as defined by the Capacity Contract) payments received under the Capacity Contract to a third party in exchange for cash and other consideration acceptable to the LLC.

As used herein, "final approval by the FERC" means the date when a particular document is either accepted for filing or permitted to become effective by the FERC.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the date first set forth above by their respective duly authorized officers.

THE WASHINGTON WATER POWER COMPANY

SPOKANE ENERGY, L.L.C.

By The Washington Water Power Company,
as manager

By: *Ronald R. Peterson*

By: *Ronald R. Peterson*

Name: Ron Peterson

Name: Ron Peterson

Title: Vice President and Controller

Title: Vice President and Controller

LLC NOTE

\$145,000,000.00

December 30, 1998

FOR VALUE RECEIVED, SPOKANE ENERGY, L.L.C. ("Maker"), a Delaware limited liability company, promises to pay to the order of SPOKANE ENERGY FUNDING TRUST ("Payee"), a Delaware business trust, or registered assigns, at the offices of Wilmington Trust Company in Wilmington, Delaware, or at such other place as the holder of this Note may hereafter designate in writing, in immediately available funds and in lawful money of the United States of America, the principal sum of ONE HUNDRED FORTY-FIVE MILLION DOLLARS (\$145,000,000.00), together with interest on the unpaid principal balance of this Note from time to time outstanding until maturity at the rate of 8.45% per annum and interest on all past due amounts, both principal and accrued interest, at the Default Rate (as defined in the Loan Agreement; but, that for the full term of this Note the interest rate produced by the aggregate of all sums paid or agreed to be paid to the holder of this Note for the use, forbearance or detention of the debt evidenced hereby shall not exceed the maximum legal rate (if any) allowed by law.

Interest shall be computed on the basis of a 360-day year consisting of 12 months, each with 30 days.

This Note shall be due and payable in monthly installments in an amount equal to the amounts set forth on Schedule I hereto, the first installment being due and payable on the thirtieth day of January, 1999, and an installment being due and payable on the thirtieth day of each succeeding calendar month (other than the month of February which shall be the 28th day of such month) (each a "Payment Date") thereafter until this Note shall have been fully paid and satisfied; but on January 30, 2015, the final maturity of this Note, all principal and accrued interest then unpaid shall be finally due and payable. All payments shall be applied first to the Make-Whole Premium, if any, second to accrued interest and the balance to principal.

This Note is prepayable in the amount (including the Make-Whole Premium), at the times and under the circumstances specified in the Loan Agreement (as hereinafter defined).

This Note is the LLC Note which has been issued pursuant to the terms of that certain Loan and Security Agreement (as amended, supplemented or restated, the "Loan Agreement") of even date herewith between Maker and the Payee, to which reference is made for all purposes. Any term defined in the Loan Agreement and used in this Note shall have the meaning ascribed to it in the Loan Agreement. The Payee is entitled to the benefits of and security provided for in the Loan Agreement.

The occurrence of an Event of Default under the Loan Agreement shall constitute default under this Note, whereupon the holder hereof may elect to exercise any or all rights, powers and remedies afforded (a) under the Loan Agreement and (b) by law, including the right to accelerate the maturity of this entire Note. If an Event of Default (as defined in the Loan Agreement)

occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Premium) and with the effect provided in the Loan Agreement.

If any holder of this Note retains an attorney in connection with any such default or to collect, enforce or defend this Note or any papers intended to secure or guarantee it in any lawsuit or in any reorganization, bankruptcy or other proceeding, or if Maker sues any holder in connection with this Note or any such papers and does not prevail, then Maker agrees to pay to each such holder, in addition to principal and interest, all reasonable costs and expenses incurred by such holder in trying to collect this Note or in any such suit or proceeding, including reasonable attorneys' fees.

The Maker waives notice (including, but not limited to, notice of intent to accelerate and notice of acceleration, notice of protest and notice of dishonor), demand, presentment for payment and protest.

This Note shall be governed by and construed in accordance with the laws of the State of New York and the United States of America from time to time in effect.

SPOKANE ENERGY, L.L.C.

By: THE WASHINGTON WATER POWER COMPANY, as Manager

COPY

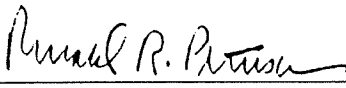
By: Ronald R. Peterson
Name: _ Ronald R. Peterson
Title: _ Vice President and Treasurer

CROSS RECEIPT
Transfer and Assumption Agreement

Reference is hereby made to that certain Transfer and Assumption Agreement dated as of September 4, 1998 by and between The Washington Water Power Company, a Washington corporation ("WWP") and Spokane Energy, L.L.C., a Washington limited liability company and predecessor in interest to Spokane Energy, L.L.C., a Delaware limited liability company ("Spokane Energy") (the "Transfer Agreement"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Transfer Agreement.

WWP hereby acknowledges receipt from Spokane Energy of consideration in the amount of \$141,840,000 in exchange for the transfer of the Capacity Contract from WWP to Spokane Energy.

THE WASHINGTON WATER POWER COMPANY

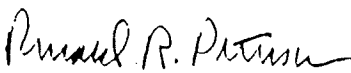
By: 
Ronald R. Peterson
Vice President & Treasurer

Dated: December 31, 1998

Spokane Energy hereby acknowledges receipt from WWP of the Capacity Contract in exchange for consideration paid in the amount of \$141,840,000.

SPOKANE ENERGY, L.L.C.

By: THE WASHINGTON WATER POWER
COMPANY, its Manager

By: 
Ronald R. Peterson
Vice President & Treasurer

Dated: December 31, 1998

ACCOUNT AND CONTROL AGREEMENT

dated as of December 1, 1998

among

SPOKANE ENERGY, L.L.C.
a Delaware limited liability company

SPOKANE ENERGY FUNDING TRUST
(acting by and through Wilmington Trust Company,
not in its individual capacity but solely as Trustee for
Spokane Energy Funding Trust),
a Delaware business trust

WILMINGTON TRUST COMPANY
a Delaware banking corporation,

ENRON POWER MARKETING INC.
a Delaware corporation

and

THE WASHINGTON WATER POWER COMPANY
a Washington corporation

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ACCOUNT AND CONTROL AGREEMENT

This ACCOUNT AND CONTROL AGREEMENT (as amended, supplemented and restated, this "Agreement"), dated as of December 1, 1998, is entered into among Spokane Energy, L.L.C., a Delaware limited liability company ("Spokane Energy"), Spokane Energy Funding Trust (acting by and through Wilmington Trust Company, not in its individual capacity but solely as Trustee for Spokane Energy Funding Trust), a Delaware business trust (the "Trust"), Wilmington Trust Company, a Delaware banking corporation, as securities intermediary (the "Intermediary"), Enron Power Marketing Inc., a Delaware corporation ("EPMI"), and The Washington Water Power Company, a Washington corporation as servicer (the "Servicer").

WHEREAS, Spokane Energy has entered into a Loan and Security Agreement of even date herewith between Spokane Energy and the Trust (as amended, supplemented and restated, the "Loan Agreement") pursuant to which, subject to the conditions stated therein, the Trust is willing to make a loan to Spokane Energy; and

WHEREAS, pursuant to the Loan Agreement, Spokane Energy is required to establish accounts to facilitate the repayment of the Loan and to secure the Loan, and the Trust and the Securities Intermediary are willing to set up such accounts as set forth herein; and

WHEREAS, pursuant to the Loan Agreement Spokane Energy has granted the Trust a security interest in certain Collateral to secure repayment of the Loan, and is required to grant the Trust control of certain securities accounts arising from and included within the Collateral, as set forth herein, in order to facilitate the perfection of the security interest;

NOW, THEREFORE, in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. CERTAIN DEFINITIONS.

1.01 The following terms used in this Agreement shall have the following meanings:

"Accounts" shall mean collectively the Collection Account, the Distribution Account, the Liquidity Account, the Prepayment Account and the Indemnification Account, each established at the Securities Intermediary in the name of Spokane Energy.

"Applicable Law" with respect to any Person means any law, statute, ordinance, rule or regulation or code of conduct or practice of any U.S. Federal, state or local Governmental Authority that applies to such Person or any of its properties or assets.

“Clearing Corporation” shall have the meaning given such term in Section 8-102(a)(5) of the UCC.

“Entitlement Order” shall have the meaning given such term in Section 8-102(a)(8) of the UCC.

“Governmental Authority” shall mean any court, administrative agency or commission or other governmental agency or instrumentality (or any officer or representative thereof) domestic, foreign or international, of competent jurisdiction.

“Investment Income” shall mean any investment income accrued on the Permitted Investments held in any of the Accounts.

“Permitted Investments” shall have the meaning set forth in the Loan Agreement.

“Responsible Officer” shall mean any officer of the corporate trust administration department of the Securities Intermediary with responsibility for the administration of the relevant portion of this Agreement.

“Securities Account” shall have the meaning given such term in Section 8-501(a) of the UCC.

“Securities Intermediary” shall have the meaning given such term in Section 8-102(a)(14) of the UCC.

“Security Entitlement” shall have the meaning given such term in Section 8-102(a)(17) of the UCC.

1.02 Capitalized terms used herein and not otherwise defined herein shall have the respective meanings ascribed thereto in Appendix A to the Loan Agreement. The Governing Provisions set forth in Appendix B to the Loan Agreement shall apply to, be incorporated by reference herein and govern this Agreement for all purposes.

SECTION 2. THE ACCOUNTS.

2.01 Establishment of Accounts.

(a) Establishment of Accounts. On the Closing Date, the Trustee on behalf of the Trust will cause to be established by the Securities Intermediary, and the Securities Intermediary will establish, accounts designated as the “Liquidity Account,” the “Collection Account,” the “Distribution Account,” the “Prepayment Account” and the “Indemnification Account.” The Liquidity Account, the Collection Account, the Distribution Account, the Prepayment Account and the Indemnification Account are special, segregated securities accounts established in accordance with this Agreement, and all monies deposited in the Liquidity Account, the Collection Account, the Distribution Account, the Prepayment Account and the Indemnification Account, and each such account, shall be held and applied in accordance with the provisions of this Agreement. The parties

hereto agree that such accounts, all monies on deposit therein and all Permitted Investments credited thereto shall be "financial assets" within the meaning of the UCC.

(b) Deposits in the Collection Account. All monies attributable to (i) the Capacity Contract, including any amounts to be remitted to the Trustee or Spokane Energy for deposit into the Collection Account by the Servicer pursuant to Section 4.05 of the Service Agreement, (ii) payments made by Spokane Energy pursuant to the Loan Agreement, and (iii) Investment Income from investment of monies on deposit in the Collection Account will be deposited as received by the Trustee or Spokane Energy in the Collection Account. The money deposited therein shall not be commingled with accounts of any other Person shall be accounted for by the Securities Intermediary on a segregated basis and shall be applied in the manner set forth in Section 2.01(c).

(c) Distributions from Collection Account; Distribution Priorities. All monies received by the Trustee or Spokane Energy under or in connection with the Capacity Contract since the immediately preceding Payment Date (or, in the case of the first Payment Date, since the Closing Date), and any amounts required to be deposited into the Collection Account pursuant to clause (b) above shall be deposited and held in the Collection Account. To the extent the balance in the Collection Account exceeds at any time the sum of (x) the lesser of (I) the sum of (i) the Total Service Fees owed on or prior to the immediately succeeding Payment Date and (ii) all sums payable to EPMI on or prior to the immediately succeeding Payment Date and (II) \$150,000 and (y) all Trustee Fees due and payable on or prior to the immediately succeeding Payment Date, the Trustee shall transfer such excess to the Distribution Account. The Trustee agrees to apply funds held in the Collection Account, at any time, in the following priority:

- (i) first, to the Servicer the Total Service Fees then due and payable (estimated not to exceed \$15,000 per month);
- (ii) second, to EPMI, for the benefit and account of Spokane Energy, all sums owed by Spokane Energy under the EPMI Contract; and
- (iii) third, to the Trustee, all Trustees Fees which shall equal \$16,500 per year.

(d) Distribution Account; Payment Priorities. On each Payment Date, the Trustee shall apply, to the extent of monies on deposit in the Distribution Account, from (i) the deposits required by Section 2.01(c) hereof, (ii) any amounts deposited into the Distribution Account from the Liquidity Account pursuant to Section 2.01(e) hereof and (iii) Investment Income from the investments of funds on deposit in the Distribution Account, amounts in the Distribution Account in the following order of priority:

- (i) first, to the payment of accrued and unpaid interest on the Notes at the Note Rate on such Payment Date (pro rata to each Note Purchaser);
- (ii) second, to the payment of principal (excluding prepayments) then due and payable on the Notes on such Payment Date (pro rata to each Note Purchaser);

- (iii) third, to the payment of any other sums then due and payable on the Notes (pro rata to each Note Purchaser) under any other provision of the Note Purchase Agreement (excluding, if applicable, the Make-Whole Premium due prior to the occurrence and continuance of an Event of Default);
- (iv) fourth, to the payment of any late payment on or in respect of the Notes at the Default Rate payable (pro rata to each Note Purchaser);
- (v) fifth, to the payment of accrued and unpaid yield at the Certificate Rate on the Certificates on such Payment Date (pro rata to each Certificate Purchaser);
- (vi) sixth, to the payment of the Base Amount (excluding prepayments) then due and payable on the Certificates on such Payment Date (pro rata to each Certificate Purchaser);
- (vii) seventh, to the payment of any other sums then due and payable on the Certificates (pro rata to each Certificate Purchaser) under any other provision of the Note Purchase Agreement (excluding, if applicable, the Make-Whole Premium due prior to the occurrence and continuance of an Event of Default);
- (viii) eighth, to the payment of any late payment on or in respect of the Certificates at the Default Rate payable (pro rata to each Certificate Purchaser); and
- (ix) ninth, to deposit into the Liquidity Account, any remaining balance.

Notwithstanding the foregoing clauses (i) through (ix), in the event of a termination of the Capacity Contract, any payments received as a settlement, judgment or other payment from Portland General (or any executor, trustee or administrator on behalf of Portland General) shall be applied pro rata to amounts due to the Servicer, EPMI and the Trustee, on the one hand, and the Purchasers of the Instruments, on the other hand.

Any amounts paid on the Instruments pursuant to this Section 2.01(d) shall be credited against payment of amounts due under the LLC Note, first to accrued interest thereon and second to the principal amount thereof .

(e) Other Funding Provisions and Related Accounts.

(i) Liquidity Account. Spokane Energy has deposited on the Closing Date the Liquidity Account Required Amount into the Liquidity Account to provide a Liquidity Advance Facility for the Instruments. If, on any Payment Date on or prior to the Final Retirement Date, a Shortfall exists, then the Trustee shall transfer to the Distribution Account, to the extent of any amounts on deposit in the Liquidity Account, an amount equal to the lesser of the Shortfall and the Available Liquidity Commitment; provided, however, that, prior to the occurrence and continuance of a Default or an Event of Default, funds on deposit in the Liquidity Account shall not be used to

pay the Make-Whole Premium, if any shall ever be applicable. On each yearly anniversary of the first Payment Date on the Instruments hereunder, the Trustee (upon the request of Spokane Energy) shall release and remit to Spokane Energy any balance in the Liquidity Account on such date in excess of the Liquidity Account Required Amount provided that no Default or Event of Default has occurred and is continuing on such anniversary date. At all times prior to the earlier to occur of (i) an Event of Default on the LLC Note and (ii) the Final Retirement Date, amounts, if any, on deposit in the Liquidity Account shall be applied only in the manner provided by this Section. If, on the date of an acceleration of the Instruments pursuant to Section 5.02 of the Declaration of Trust, a Shortfall exists, then the Trustee shall transfer to the Distribution Account, to the extent of any amounts on deposit in the Liquidity Account an amount equal to the Shortfall. Any amounts paid on the Instruments pursuant to this Section 2.01(e)(i) shall be credited against payment of amounts due under the LLC Note, first to accrued interest thereon and second to the principal amount thereof.

(ii) Prepayment Account; Make-Whole Premium. The Trust shall prepay the Notes and the Certificates, in whole or in part, on a pro rata basis to the extent monies are designated by Spokane Energy for such purpose and deposited by Spokane Energy for such purpose in the Prepayment Account. All amounts deposited into the Prepayment Account shall be paid to each Purchaser holding a Note or a Certificate, as follows: first to the Make-Whole Premium (pro rata to each Purchaser), second to accrued interest and yield, if applicable, to the Payment Date set for such prepayment (pro rata to each Purchaser) and third to the principal amount or Base Amount of each Note and Certificate. Any amounts paid on the Instruments pursuant to this Section 2.01(e)(ii) shall be credited against payment of amounts due under the LLC Note, first to accrued interest thereon and second to the principal amount thereof.

(iii) Indemnification Account. All amounts payable by Spokane Energy pursuant to Section 7.02 of the Loan Agreement, any payments by WWP pursuant to the Service Agreement (other than any such payments pursuant to Section 4.05 of the Service Agreement), any amounts contributed under the Limited Liability Company Agreement (other than the initial contribution of \$500,000 or any such contributions required to be deposited in the Prepayment Account), any payments by EPMI pursuant to the EPMI Contract and any payments by Enron pursuant to the Guaranty shall be deposited in the Indemnification Account. Such amounts shall be applied by the Trustee as directed by the Majority Purchasers.

(f) Balance Disbursement; Investment.

(i) Account Balance Disbursement. Upon the Final Retirement Date, all funds remaining in any of the Accounts, less amounts owed to the Trustee as Trustees Fees, or to the Servicer or EPMI under the Transaction Documents, shall be paid to Spokane Energy.

(ii) Investment of Account Funds. All Permitted Investments held in the Accounts shall be issued, registered, established or entered into, as applicable, in the name of the Securities Intermediary, and the Securities Intermediary shall have exclusive possession of, and sole dominion and control over, such Permitted Investments. All Investment Income on the funds attributable to the Accounts shall be added to and retained in each such account. Notwithstanding

the foregoing, Spokane Energy remains the "entitlement holder" (within the meaning of Article 8 of the Uniform Commercial Code).

2.02 Accounts and Monthly Reports.

(a) The Accounts have been established and are being maintained by the Securities Intermediary for the sole and special purpose of facilitating the repayment of the Loan by Spokane Energy to the Trust pursuant to the Loan Agreement. No Person (other than the Purchasers, the Servicer, EPMI or the Trustee) shall have any right to request the Trustee to make any disbursement from any Account until the Final Retirement Date, provided that, unless and Event of Default has occurred and is continued, the relative priority of all such disbursements shall be governed by Section 2.01(c), (d) and (e) and the Securities Intermediary will not act on any Entitlement Order delivered by anyone other than the Trust. Upon the Final Retirement Date, Spokane Energy shall have the exclusive right to request a transfer or disbursement from any Account.

(b) On the fifth Business Day following each Payment Date, the Trustee shall deliver to each Purchaser of Spokane Energy and the Servicer by first class regular mail, a statement reflecting (i) the balance at the end of the Payment Date of the amount on deposit in the Liquidity Account, together with Investment Income on amounts held in such Liquidity Account, and (ii) the Investment Income paid on each other Account during the preceding month and on an accumulated basis for the calendar year.

(c) On the second Business Day following the 20th day of each month, the Trustee shall prepare a statement reflecting the amount of the Capacity Payment received from Portland General under the Capacity Contract and deposited into the Collection Account and deliver such statement to the Servicer by facsimile.

2.03 Deposits into the Accounts. The Securities Intermediary hereby agrees to invest any and all funds received in any Account in Permitted Investments.

2.04 Transfer from the Accounts; Event of Default. The Trustee shall make transfers from the Accounts solely in accordance with this Agreement and the other Transaction Documents. Upon the occurrence and during the continuance of an Event of Default, and notwithstanding anything contained in this Section 2 to the contrary, the Trustee may direct the Securities Intermediary to make transfers from the Accounts as directed by the Majority Purchasers.

SECTION 3. THE SECURITIES INTERMEDIARY

3.01 Appointment of Securities Intermediary, Powers and Immunities.

(a) The parties hereto hereby appoint and authorize Wilmington Trust Company to act as the Securities Intermediary on behalf of the Trust and Spokane Energy under this Agreement, with such powers as are expressly delegated to the Securities Intermediary by the terms of this Agreement and the UCC.

(b) The Securities Intermediary undertakes to perform such duties and only such duties as are specifically set forth in this Agreement or the UCC, as expressly modified by this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Securities Intermediary; and as to any matters not expressly provided for by this Agreement, the Securities Intermediary shall not be required to take any action or exercise any discretion, but, subject to Section 3.02(c) hereof, prior to the Final Retirement Date shall be required to act or to refrain from acting upon instructions of the Trust and shall in all such cases be fully protected in acting, or in refraining from acting, hereunder in accordance with the instructions of the Trust.

3.02 Rights of Securities Intermediary. (a) The Securities Intermediary shall be entitled to rely upon any certificate, notice or other document (including any cable, telegram, teletype or telex) believed by it to be genuine and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Securities Intermediary. The Securities Intermediary shall also be entitled to rely upon certificates or opinions furnished to the Securities Intermediary and conforming to the requirements of this Agreement; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Securities Intermediary, the Securities Intermediary shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement.

(b) No provision of this Agreement shall be construed to relieve the Securities Intermediary from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own reckless or willful misconduct, except that:

(i) the Securities Intermediary shall not be liable for any error of judgment of a Responsible Officer of the Securities Intermediary, unless it shall be proved that such Responsible Officer of the Securities Intermediary was grossly negligent in ascertaining the pertinent facts;

(ii) the Securities Intermediary shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Trust relating to the time, method and place of conducting any proceeding for any remedy available to the Securities Intermediary, or exercising any trust or power conferred upon the Securities Intermediary, under this Agreement; and

(iii) no provision of this Agreement shall require the Securities Intermediary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(c) If the Securities Intermediary has been requested or directed by the Trust to take action pursuant to this Agreement, the Securities Intermediary shall not be under any obligation or duty to exercise any of the rights or powers vested in the Securities Intermediary by this Agreement unless the Securities Intermediary shall have been provided adequate security and indemnity reasonably acceptable to the Securities Intermediary against the costs, expenses and liabilities which

may be reasonably incurred by it in compliance with such request or direction, including such reasonable advances as may be requested by the Securities Intermediary.

(d) The Securities Intermediary may consult with the Trust, any counsel reasonably satisfactory to the Trust, accountants or other experts in connection with the fulfillment of its duties hereunder, and the Securities Intermediary shall be entitled to rely and shall be fully protected in relying on the advice of the Trust, such counsel, accountants or other experts in connection with any action taken, omitted to be taken or suffered by the Securities Intermediary in fulfilling its duties hereunder.

(e) Whenever in the administration of this Agreement the Securities Intermediary shall deem it desirable that a matter be proved or established prior to taking, suffering, or omitting any action hereunder, the Securities Intermediary (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon written instructions from the Trust.

(f) The Securities Intermediary shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, or other paper or documents, but the Securities Intermediary, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(g) The Securities Intermediary may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Securities Intermediary shall not be responsible for any act or omission on the part of any agent or attorney appointed with due care by it hereunder.

(h) The Securities Intermediary shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers, absent its own gross negligence or willful misconduct.

(i) The Securities Intermediary shall be under no obligation to institute any suit, or to take any remedial proceeding under this Agreement, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or in the enforcement of any rights or powers hereunder, if the Securities Intermediary reasonably believes that it will not be adequately indemnified against any and all costs and expenses, outlays, and counsel fees and other reasonable disbursements and against all liability, except liability that is adjudicated to have resulted from its gross negligence or willful misconduct, in connection with any actions so taken.

(j) Notwithstanding anything to the contrary contained herein, the Securities Intermediary shall not be required to take, the Trust shall not instruct the Securities Intermediary to take, and the Securities Intermediary shall not take, any action which is contrary to this Agreement or Applicable Law.

(k) The Securities Intermediary shall not be responsible to the Trust, Spokane Energy or any other Person for any recitals, statements, representations or warranties made by the Trust or Spokane Energy contained in this Agreement or in any certificate or other document referred to or

provided for in, or received by the Trust or Spokane Energy under, this Agreement, for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other document referred to or provided for herein or therein or for any failure by the Trust or Spokane Energy to perform their respective obligations hereunder or thereunder.

(l) The Securities Intermediary shall be under no liability for interest on any money received by it hereunder (other than Permitted Investments with respect to which Wilmington Trust Company is the obligor) except as otherwise agreed with the Trust and Spokane Energy and except to the extent of income or other gain on investments that are deposits in or certificates of deposits or other obligations of the Securities Intermediary in its commercial capacity and income or other gain actually received by the Securities Intermediary on Permitted Investments.

(m) Whether or not therein expressly so provided, every provision of this Agreement relating to the conduct or affecting the eligibility of or affording protection to the Securities Intermediary shall be subject to the provisions of this Section.

3.03 Indemnity Expenses; Fees. The Securities Intermediary and the Trustee shall be paid its Trustee Fee (which includes ordinary and reasonable out-of-pocket expenses of the Securities Intermediary and the Trustee) out of the Collection Account. The Trust Institution shall also be entitled to be reimbursed for all reasonable extraordinary expenses, disbursements and advances incurred by it pursuant to this Agreement or the other Transaction Documents, including any amounts payable to it pursuant to Section 7.06(b) of the Declaration of Trust and the reasonable fees and expenses of its counsel and of its agents not regularly in its employ, but excluding administrative costs, overhead and expenses relating to the ordinary duties of the Trust Institution as Securities Intermediary hereunder or as Trustee under the Declaration of Trust (collectively the "Trust Institution Extraordinary Expenses.") The Trust Institution shall claim directly under the indemnity pursuant to Section 7.02 of the Loan Agreement for all such Trust Institution Extraordinary Expenses.

SECTION 4. ADMINISTRATION OF THE ACCOUNTS; CONTROL

4.01 Administration of the Accounts. The Securities Intermediary shall hold the Accounts and the lien thereon for the benefit of the Trust and Spokane Energy, as their respective interests may appear, pursuant to the terms of this Agreement and the other Transaction Documents. The Securities Intermediary shall exercise such rights and remedies with respect to the Accounts as are granted to it under Applicable Law and as shall be directed by the Trust until the Final Retirement Date, and thereafter as shall be directed by Spokane Energy.

(a) The Securities Intermediary shall have no duty as to any Account or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any of the Accounts, except as provided herein or in the UCC, as expressly modified by this Agreement. The Securities Intermediary's sole duty with respect to the custody, safekeeping and physical preservation of the Accounts in its possession shall be to deal with same in the same manner as the Securities Intermediary deals with similar securities and property for its own account. To the fullest extent permitted by law, and until the Final Retirement Date, neither the Securities Intermediary, the

Trust nor any of their directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon any Permitted Investments held in any of the Accounts or for any delay in doing so or shall be under any obligation to sell or otherwise dispose any Permitted Investments held in any Account upon the request of Spokane Energy or otherwise. The Securities Intermediary shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to Spokane Energy or to any other Person for any act or failure to act.

4.02 Securities Account. Wilmington Trust Company hereby represents that in the ordinary course of its business it maintains securities accounts for others, is acting in that capacity hereunder as Securities Intermediary and that the Accounts are "securities accounts" within the meaning of the UCC. The Securities Intermediary hereby confirms that on or prior to the Closing Date (i) the Securities Intermediary will establish the Accounts, (ii) the Accounts are accounts to which financial assets are or may be credited, (iii) until the Final Retirement Date, the Securities Intermediary shall, subject to the terms of this Agreement, treat the Trust as entitled to exercise the rights that comprise any financial asset credited to such Accounts, (iv) all property delivered to the Securities Intermediary pursuant to this Agreement for deposit to the Accounts will, to the extent specified in this Agreement, promptly be credited to the appropriate Account, (v) all Investment Income on the funds attributable to any Account shall be added to and retained in such Account, and (vi) all securities or other property underlying any financial assets credited to each Account shall be registered in the name of the Securities Intermediary, indorsed to the Securities Intermediary or in blank or credited to another securities account maintained in the name of the Securities Intermediary and in no case will any financial asset credited to such Account be registered in the name of Spokane Energy, payable to the order of Spokane Energy or specifically indorsed to Spokane Energy except to the extent the foregoing have been specially indorsed to the Securities Intermediary or in blank.

4.03 "Financial Assets" Election. The Securities Intermediary hereby agrees that each item of property; (whether investment property, financial asset, security, instrument or cash) credited to any Account shall be treated as a "financial asset" within the meaning of Section 8-102(a)(9) of the UCC.

4.04 Entitlement Orders. Until the Final Retirement Date, if at any time the Securities Intermediary shall receive any Entitlement Order from the Trust with respect to any Account, the Securities Intermediary shall comply with such Entitlement Order without further consent by Spokane Energy or any other Person.

4.05 Subordination of Lien; Waiver of Set-Off. In the event that the Securities Intermediary has or subsequently obtains by agreement, operation of law or otherwise a security interest in any or any Security Entitlement credited thereto, the Securities Intermediary hereby agrees that such security interest shall be subordinate to the security interests of the Trust and the Purchasers. The financial assets and other items deposited to any Account will not be subject to deduction, set-off, banker's lien or any other right in favor of any Person or entity other than the Trust (except that the Securities Intermediary may set off against amounts on deposit in any Account (i) all amounts due to it in respect of its customary fees and expenses as provided in Section 3.03,

and (ii) the face amount of any checks which have been credited to any such Account but are subsequently returned unpaid because of uncollected or insufficient funds).

4.06 Notice of Adverse Claims. Except for the claims and interests of Spokane Energy, the Trust and the Purchasers in any Account, the Securities Intermediary does not know of any claim to, or interest in, any such Account or in any financial asset credited thereto. If any Person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, warrant of attachment, execution or similar process) against any Account or in any financial asset carried therein, the Securities Intermediary will promptly notify the Trust and Spokane Energy thereof.

SECTION 5. REPRESENTATIONS AND WARRANTIES

The Securities Intermediary, with respect to any financial asset (as defined in the UCC) as it may be from time to time credited on the books of a Clearing Corporation (including, without limitation, any Security Entitlement therein) and credited to an Account, represents, warrants and covenants as follows:

(i) such financial asset has been credited to an Account established pursuant hereto;

(ii) the Securities Intermediary is a "securities intermediary" within the meaning of the UCC and is acting in that capacity;

(iii) each Account is a "securities account" within the meaning of the UCC;

(iv) the Securities Intermediary will maintain each Account in the name of Spokane Energy during the term of this Agreement but held for the account of the Trust as secured party or "purchaser" within the meaning of the UCC;

(v) the Securities Intermediary will treat such financial asset and Security Entitlement credited to each as a "financial asset" within the meaning of the UCC;

(vi) the Securities Intermediary has not and will not identify any of the monies or Permitted Investments credited to any Account as belonging to any Person other than Spokane Energy subject to the lien of the Loan Agreement in favor of the Trust;

(vii) until the Final Retirement Date, the Securities Intermediary shall at all times comply strictly with any and all Entitlement Orders relating to any Account originated by the Trust without further consent by Spokane Energy or any other Person. On and after the Final Retirement Date, the Securities Intermediary shall comply with any Entitlement Order relating to any Account originated by Spokane Energy;

(viii) the Securities Intermediary has not entered into any agreement (other than this Agreement) with any Person under which the Securities Intermediary would be obligated to comply with any Entitlement Order with respect to any Account or which purports to limit or condition the obligation of the Securities Intermediary to comply with any Entitlement Order originated by the

Trust or Spokane Energy, as applicable, relating to any Account, and agrees not to enter into any such agreement without the prior written consent of Spokane Energy and the Trust; and

(ix) the Securities Intermediary shall promptly notify Spokane Energy and the Trustee on behalf of the Trust if at any time the Securities Intermediary has notice of any claim with respect to any Account.

SECTION 6. FURTHER ASSURANCES

(a) Spokane Energy agrees that, until the Final Retirement Date, from time to time upon request of the Trust, and at the expense of Spokane Energy, it will promptly execute and deliver all further instruments and documents, and take all further action that may be reasonably necessary or desirable, or that the Trust may reasonably request, in order to create, preserve, validate, perfect or protect the security interests granted or purported to be granted in any Account under this Agreement and the Loan Agreement, the priority thereof or to enable the Trust to exercise and enforce its rights and remedies hereunder or thereunder. Without limiting the generality of the foregoing, Spokane Energy will: (i) if any Account shall be evidenced by a promissory note or other instrument, deliver and pledge to the Trust such note or instrument duly endorsed or accompanied by duly executed instruments of transfer or assignment, all in form and substance reasonably satisfactory to the Trust; and (ii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments, endorsements or notices as may be reasonably necessary or desirable, or as the Trust may reasonably request, in order to create, preserve, validate, perfect or protect the security interests granted or purported to be granted by the Loan Agreement.

(b) Spokane Energy shall pay all filing, registration and recording fees or re-filing, re-registration and re-recording fees, and all expenses incident to the execution and acknowledgment of this Agreement, any agreement supplemental hereto or thereto and any instruments of further assurance, and all intangibles and stamp taxes and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Agreement, any agreement supplemental hereto and any instruments of further assurance.

SECTION 7. AMENDMENTS.

No amendment or waiver of any provision of this Agreement nor consent to any departure by Spokane Energy herefrom shall in any event be effective unless the same shall be in writing and signed by the Securities Intermediary and the Trust, and then such waiver or consent shall be effective only in the specific instance and for the specified purpose for which given; provided, however, that the provisions of Section 3.03 hereof may not be amended without the affirmative consent of the Trust Institution.

SECTION 8. ADDRESSES FOR NOTICES

All notices, demands, consents, requests or other communications that are permitted or required to be given by any party to the other hereunder shall be in writing and given in the manner specified in the Loan Agreement. Any notice, demand, consent, request or other communication

sent to the Securities Intermediary must be sent to the Securities Intermediary at Wilmington Trust Company, Rodney Square North, 1100 North Market Street, Wilmington, Delaware 19890 to the attention of Corporate Trust Administration, or at such other address as the Securities Intermediary shall have specified to the Trust and Spokane Energy in writing.

SECTION 9. GOVERNING LAW

THIS AGREEMENT (INCLUDING, WITHOUT LIMITATION, THE INTERPRETATION, CONSTRUCTION, VALIDITY AND ENFORCEABILITY THEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCLUDING CONFLICTS OF LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD RECOGNIZE THE APPLICATION OF THE LAW OF A JURISDICTION OTHER THAN SUCH STATE.

Notwithstanding the foregoing and regardless of any provision in any other agreement, for purposes of the UCC and this Agreement, the State of New York shall be deemed to be the Securities Intermediary's location and any Account (as well as the Security Entitlements and any financial asset related thereto) shall be governed by the laws of the State of New York.

SECTION 10. HEADINGS

Headings used in this Agreement are for convenience of reference only and do not constitute part of this Agreement for any purpose.

SECTION 11. NO THIRD PARTY BENEFICIARIES

The agreements of the parties hereto are solely for the benefit of Spokane Energy, the Securities Intermediary, the Trustee and the Trust (including the Purchasers).

SECTION 12. NO RECOURSE

It is expressly understood and agreed by and between the parties hereto that insofar as this Agreement relates to the duties and obligations of the Trustee or the Trust (but not insofar as it relates to the Securities Intermediary): (i) that this Agreement is executed and delivered by Wilmington Trust Company, not in its individual capacity but solely as Trustee under the Declaration of Trust in the exercise of the power and authority conferred and vested in it as such Trustee, (ii) each of the representations, undertakings and agreements made herein by the Trustee and the Trust are not personal representations, undertakings and agreements of Wilmington Trust Company, but are binding only on the Trust created pursuant to the Declaration of Trust, (iii) nothing contained herein shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant of the Trust either expressed or implied herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under any such party, and (iv) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expense of the Trust or be

liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Trust under this Agreement.

SECTION 13. SEVERABILITY

Any provision hereof which is prohibited or unenforceable in any jurisdiction, shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and without affecting the validity or unenforceability of any provision in any other jurisdiction.

SECTION 14. COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

SPOKANE ENERGY, L.L.C.

By: The Washington Water Power Company, as
Manager

By: *Ronald R. Peterson*
Name: Ronald R. Peterson
Title: Vice President and Treasurer

WILMINGTON TRUST COMPANY, as Securities
Intermediary

By: _____
Name: _____
Title: _____

SPOKANE ENERGY FUNDING TRUST, acting by
and through Wilmington Trust Company, not in its
individual capacity but solely as Trustee

By: WILMINGTON TRUST COMPANY, as
Trustee

ENRON POWER MARKETING INC.

By: *Jacob S Thomas*
Name: JACOB S THOMAS
Title: AGENT AND ATTORNEY-IN-FACT

LYONS

[SIGNATURE PAGE TO CONTROL AGREEMENT]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

SPOKANE ENERGY, L.L.C.

By: The Washington Water Power Company, as
Manager

By: _____
Name: _____
Title: _____

WILMINGTON TRUST COMPANY, as Securities
Intermediary

By: _____
Name: **Patricia A. Evans**
Title: **Financial Services Officer**

SPOKANE ENERGY FUNDING TRUST, acting by
and through Wilmington Trust Company, not in its
individual capacity but solely as Trustee

By: WILMINGTON TRUST COMPANY, as
Trustee

Patricia A. Evans
Financial Services Officer

ENRON POWER MARKETING INC.

By: _____
Name: _____
Title: _____

[SIGNATURE PAGE TO CONTROL AGREEMENT]

THE WASHINGTON WATER POWER
COMPANY, as Servicer

By: Ronald R. Peterson
Name: Ronald R. Peterson
Title: Vice President and Treasurer

[SIGNATURE PAGE TO CONTROL AGREEMENT]

**CONFIDENTIAL
AND PROPRIETARY**

SERVICE AGREEMENT

dated as of December 1, 1998

among

THE WASHINGTON WATER POWER COMPANY,
Individually and as Servicer,

SPOKANE ENERGY, L.L.C.,

and

SPOKANE ENERGY FUNDING TRUST

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**CONFIDENTIAL
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**CONFIDENTIAL
AND PROPRIETARY**

SERVICE AGREEMENT

THIS SERVICE AGREEMENT (as amended, supplemented and restated, this "Agreement"), dated as of December 1, 1998, is among THE WASHINGTON WATER POWER COMPANY, a Washington corporation (individually, "WWP," or, in its capacity as the servicer hereunder, the "Servicer"). SPOKANE ENERGY, L.L.C., a Delaware corporation ("Spokane Energy") and SPOKANE ENERGY FUNDING TRUST, a Delaware business trust (the "Trust"), acting by and through Wilmington Trust Company, a bank and trust company under the laws of the State of Delaware, not in its individual capacity but solely as Trustee (the "Trustee").

RECITALS

Spokane Energy and the Trust have executed that certain Loan and Security Agreement of even date herewith (as amended, supplemented and restated, the "Loan Agreement").

Spokane Energy and the Trust desire to have WWP act as servicer of the Collateral pledged by Spokane Energy as security for the LLC Note (including but not limited to the Capacity Contract and the EPMI Contract) on the terms and conditions set forth below.

AGREEMENTS

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, WWP, the Servicer, Spokane Energy and the Trust hereby agree as follows:

ARTICLE 1

DEFINITIONS AND GOVERNING PROVISIONS

Section 1.01 Definitions. The capitalized terms referenced in this Agreement and not otherwise specifically defined herein shall have the meanings ascribed to such terms in the Glossary attached as Appendix A to the Loan Agreement.

Section 1.02 Governing Provisions. The Governing Provisions set forth in Appendix B to the Loan Agreement shall apply to, be incorporated by reference herein and govern this Agreement for all purposes.

ARTICLE 2

ADMINISTRATION AND SERVICING OF CAPACITY
CONTRACT AND EPMI CONTRACT

Section 2.01 Appointment of Servicer. The Servicer is hereby appointed as the servicer of the Capacity Contract and the EPMI Contract, and the Servicer hereby accepts such appointment and agrees to act as servicer under the terms of this Agreement to administer the Capacity Contract and the EPMI Contract and to service the Capacity Contract and the EPMI Contract. Subject to the terms of this Agreement, the Loan Agreement and the Control Agreement, solely in its capacity as agent on behalf of Spokane Energy, and not as guarantor, (i) the Servicer hereby agrees to perform the obligations of Spokane Energy under the Capacity Contract and the EPMI Contract, in each case in accordance with the terms of such contract, and (ii) Spokane Energy, the Trust and WWP hereby acknowledge that the Servicer shall have full power and authority, and hereby direct the Servicer, to do any and all things in connection with the servicing and administration of the Capacity Contract and the EPMI Contract as it may deem necessary or desirable. The Servicer, acting in its capacity as administrator and servicer of the Capacity Contract and the EPMI Contract, agrees that the delivery of Energy and Return Energy (as each term is used within the meaning of the Capacity Contract) shall take place in accordance with the provisions of the Capacity Contract and the EPMI Contract. The Servicer agrees that servicing of the Capacity Contract and the EPMI Contract shall be carried out in accordance with prudent servicing standards, and the Servicer will exercise that degree of skill and care consistent with the degree of skill and care that the Servicer exercises with respect to similar contracts, receivables, and assets owned or serviced by the Servicer and will apply, in the servicing and administration of the Capacity Contract and the EPMI Contract, such standards, policies, and procedures consistent with the standards, policies, and procedures that the Servicer applies with respect to similar contracts, receivables, and assets owned or serviced by it. To the extent permitted by the Capacity Contract and by applicable Law, prior to an Event of Default, the Servicer, at the request of Spokane Energy, and following an Event of Default, at the request of the Trustee (at the direction of the Majority Purchasers), shall enforce the obligations of Portland General under the Capacity Contract and, to the extent permitted by the EPMI Contract and applicable Law, shall enforce the obligations of EPMI under the EPMI Contract.

Section 2.02 Delegation or Assignment by Servicer. Except to effect any assignment in connection with the removal and replacement of the Servicer pursuant to Sections 6.01 and 6.02, the Servicer shall not delegate, pledge, grant a security interest in, or assign to any other party any of its rights, duties, powers, or obligations under this Agreement, the Capacity Contract or the EPMI Contract, without the prior written consent of the Majority Purchasers and Spokane Energy; provided that the Servicer may retain independent contractors to perform any of its duties hereunder so long as the Servicer remains fully liable for all actions or omissions to act of such independent contractors so selected by it; provided all such agreements with independent contractors shall be terminable at will and provided further the Servicer shall pay all such contractors' costs and expenses from its Service Fee. The obligations of any Servicer under this Section shall survive any removal and replacement of such Servicer pursuant to Sections 6.01 and 6.02.

Section 2.03 Service Fee; Payment of Certain Expenses.

(a) As compensation for the performance of its obligation under this Agreement, the Servicer shall receive on each Payment Date, a servicing fee equal to the Administrative Expenses (as defined in the EPMI Contract) due to Spokane Energy under the EPMI Contract for such month (the "Service Fee"). The Servicer shall be entitled to payment of the Service Fee only to the extent amounts on deposit in the Collection Account are sufficient for payment pursuant to the Control Agreement.

(b) The Servicer shall pay out of its own funds and not as a separate charge to the Trust or to Spokane Energy all expenses incurred by it in connection with its servicing activities for the Collateral (including but not limited to the Capacity Contract and the EPMI Contract) as herein provided, including payment of expenses incurred in connection with distributions and reports to Purchasers. Notwithstanding the foregoing, the Trust shall not be charged for any increased costs of transmission from the point of delivery by EPMI under the EPMI Contract to the point of delivery to Portland General under the Capacity Contract.

(c) Subject to Section 2.01(c) of the Control Agreement, any Service Fees payable to the Servicer pursuant to this Section that were not paid because of a deficiency in the Collection Account on any Payment Date shall accrue ("Accrued Service Fees") and be payable on any subsequent Payment Date on which moneys on deposit in the Collection Account are sufficient therefor as provided in the Control Agreement.

Section 2.04 Term of Agreement. This Agreement shall remain in full force and effect until the Final Retirement Date, subject to Articles 5 or 6 hereof.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

Section 3.01 Servicer or WWP Representations and Warranties. WWP, individually and as Servicer, hereby represents and warrants to Spokane Energy and the Trust as of the Closing Date:

(a) Organization and Authority. WWP is a corporation duly incorporated and validly existing under the laws of the State of Washington. The Servicer or WWP has all corporate powers and all material governmental licenses, authorizations, consents, and approvals required in each case to carry on its business as now conducted.

(b) Authorization. The execution, delivery, and performance by WWP of each of the Capacity Contract, the Transfer Agreement and any other Operative Document, either in its capacity as WWP or as Servicer, to which it is a party are within its corporate powers; have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with,

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any Governmental Authority (other than such as have been obtained); and do not contravene, or constitute a default under, any provision of Law applicable to WWP or the Servicer or the certificate of incorporation or bylaws or other organizational documents of WWP or the Servicer or any material judgment, injunction, order, decree, agreement, contract or instrument binding upon WWP or the Servicer, or result in the creation or imposition of any Lien on any asset of the WWP or the Servicer, except as provided for in the Operative Documents.

(c) Enforceability. Each of the Capacity Contract and the other Operative Documents to which either WWP or the Servicer is a party constitutes the legal, valid, and binding obligation of WWP or the Servicer, as the case may be, enforceable against WWP or the Servicer, respectively, in accordance with its terms, except as may be limited by the effect of any Bankruptcy Law or by general principles of equity. To the Actual Knowledge of WWP, the Capacity Contract constitutes a legal, valid, and binding obligation of Portland General, enforceable against it in accordance with its terms except as may be limited by the effect of any Bankruptcy Law or by general principles of equity.

(d) Litigation. There is no Action pending (or, to the knowledge of the Servicer, threatened) (i) against the Servicer or any of its Subsidiaries or (ii) in respect of the Capacity Contract before any Governmental Authority which, in either case, (A) draws into question the validity or enforceability of the Capacity Contract or any of the other Operative Documents or (B) could reasonably be expected to have a material adverse effect on (x) the amounts to be deposited into the Collection Account pursuant to the Control Agreement or (y) the consolidated financial condition, business or operations of the Servicer and its Subsidiaries taken as a whole.

(e) Consents. The execution and delivery by the Servicer of each Operative Document to which it is a party and any other agreement which it has entered into in connection with the transactions contemplated thereby, the consummation of the transactions contemplated thereby, and its compliance with the terms thereof do not require the consent or the approval or authorization of, or filing, registration or qualification with, any Governmental Authority or any other Person which has not been obtained.

(f) Location of Servicer. The chief place of business and the chief executive office of the Servicer and the offices where the Servicer keeps all its records are, and for the four-month period prior to the date hereof have been, located at the address specified on Schedule I hereto.

(g) Name. The Servicer has not changed its name during the four-month period prior to the date hereof. Effective on or about January 1, 1999, the Servicer will change its name to Avista Corporation.

(h) Collection Practices. The credit and collection practices of the Servicer with respect to the Collateral (including but not limited to the Capacity Contract and the EPMI Contract) are consistent with the standard credit and collection practices of the Servicer.

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(i) Proceedings. To the Servicer's Actual Knowledge, no proceeding has been instituted (and remains undismissed) seeking (A) to adjudicate Portland General as bankrupt or insolvent, (B) liquidation, winding-up, reorganization, rearrangement, adjustment, protection, relief or recomposition of Portland General or Portland General's debts under any Bankruptcy Law, or (C) the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for Portland General or for any substantial part of Portland General's property.

(j) Copy of Capacity Contract. Included as an attachment to the Loan Agreement is a true and complete copy of the Capacity Contract.

(l) Events of Default; Disputes. No default by the Servicer or WWP under the Capacity Contract and no event which with the giving of notice or the lapse of time, or both, would constitute such a default has occurred and is continuing. To the Servicer's best knowledge, after reasonable inquiry to sources within the control of the Servicer, no default by Portland General under the Capacity Contract (or event that with the giving of notice or lapse of time, or both, would constitute such a default) has occurred and is continuing. There have been no disputes or claims against WWP under the Capacity Contract and there have been no disputes or claims by WWP against Portland General under the Capacity Contract.

(m) Ability to Meet Obligations. Spokane Energy is, as of the Closing Date, able to meet all of its obligations, including its obligations under the Capacity Contract.

(n) Year 2000. WWP has taken or shall take all reasonable action available to it to timely assure that all WWP systems necessary to the performance of its obligations as Servicer will be Year 2000 compliant prior to January 1, 2000. The status of WWP's remediation and testing efforts and expectations in this regard as of the Closing Date are accurately summarized in Exhibit A hereto and incorporated herein by reference. To WWP's best knowledge (after due inquiry) the failure of any WWP system to accurately manage and manipulate data derived from, involving or relating in any way to dates (including single century formulas and multi-century or leap year formulas) shall not have a material adverse effect on WWP's ability to perform its obligations under this Agreement. WWP makes no representation regard Year 2000 compliance or the effect of non-compliance by systems or parties that WWP does not control.

(o) Operating Procedures. Other than the Operating Procedures referenced in Section 4.10 hereof, prior to the Closing Date, WWP has not established any operating procedures as contemplated by Section 17 of the Capacity Contract.

(p) No Setoff. From the period commencing with the effective date of the Capacity Contract to the Closing Date, PGE did not offset, abate or otherwise set-off any amounts owed by PGE under the Capacity Contract and to the knowledge of WWP, after reasonable inquiry of sources within the control of WWP, PGE has no right to and has not notified WWP or Spokane

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Energy of its intent to set-off, abate or otherwise set-off any such amounts owed, or which may in the future be owed, by PGE.

ARTICLE 4

COVENANTS OF SERVICER

Section 4.01 Reporting Requirements. The Servicer shall furnish, or cause to be furnished to Spokane Energy and the Trust:

(a) On or before the Business Day immediately preceding the tenth day prior to each Payment Date, a certificate (a "Collection Certificate") duly executed by a Responsible Officer of the Servicer and setting forth:

(i) the calculation of all payments made by Portland General under the Capacity Contract for the prior month;

(ii) the Servicer's estimate of the amounts to be distributed on such Payment Date (including any Liquidity Advance Facility anticipated to be made on such Payment Date); and

(iii) the amount of the monthly Service Fee.

(b) As soon as possible, and in any event within five Business Days after a Responsible Officer of the Servicer obtains knowledge thereof, notice of (i) any default of Portland General or Spokane Energy in connection with the Capacity Contract or any default of Spokane Energy or EPMI under the EPMI Contract, (ii) any default caused, directly or indirectly, by the Servicer in connection with the Capacity Contract or the EPMI Contract, or (iii) any Termination Event with respect to the Capacity Contract or the EPMI Contract:

(c) As soon as possible, and in any event within 30 days after any change of the principal place of business and chief executive offices of the Servicer, notice of such change, setting forth the new address for the principal place of business and chief executive offices:

(d) As soon as possible, and in any event within five Business Days after a Responsible Officer of the Servicer obtains knowledge thereof, notice of (i) any Supply Failure, (ii) any systems failure that would prevent the Servicer from performing its obligations under this Agreement, (iii) any litigation the outcome of which could have a Material Adverse Effect on the Servicer's ability to perform its obligations under this Agreement, and (iv) any other event which could have a Material Adverse Effect on the Servicer's ability to perform its obligations under this Agreement:

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(e) All notices received by the Servicer under any of the Operative Documents other than notices relating to the scheduling of deliveries of Energy and Return Energy (each as defined in the Capacity Contract); and

(f) From time to time, such other information respecting the Capacity Contract or the EPMI Contract as the Trust or Spokane Energy may from time to time reasonably request and if the Servicer is precluded by law from providing such information, the Servicer shall use reasonable efforts to obtain the consents necessary to provide such information.

Section 4.02 Compliance with Laws. The Servicer shall comply with all applicable Laws, except to the extent the failure to so comply could not reasonably be expected to have a material adverse effect on the financial condition, business, or operations of the Servicer, including, without limitation, its ability to perform its obligations under this Agreement.

Section 4.03 Preservation of Existence. The Servicer shall at all times preserve and keep in full force and effect its corporate existence.

Section 4.04 Visitation Rights. From time to time, during regular business hours and after reasonable notice, the Servicer shall permit Spokane Energy, the Trust and any of the Purchasers or any agents or representatives thereof, to examine the records and books of account relating to its servicing duties hereunder, and visit the properties of the Servicer and to discuss the affairs, finances, and accounts of the Servicer with any of their respective officers or directors, but in all cases solely with respect to its servicing duties hereunder.

Section 4.05 Collection of Payments Under the Capacity Contract. The Servicer acknowledges that the Trustee on behalf of the Trust has established the Collection Account pursuant to the Control Agreement, and the Servicer agrees to deposit into the Collection Account all monies in respect of Capacity Payments, if any, received by the Servicer under or in connection with the Capacity Contract. In the event any Capacity Payments are received directly by WWP as Servicer or otherwise, such Capacity Payments shall be trust funds received in trust by WWP and immediately on the date of receipt by WWP, shall be remitted by WWP to the Trust for deposit into the Collection Account.

Section 4.06 Records. The Servicer shall retain all data relating directly to or maintained in connection with the servicing of the Capacity Contract or the EPMI Contract at the offices of the Servicer, and shall give Spokane Energy and the Trust access at all reasonable times. While a Servicer Default shall be continuing, the Servicer shall, on demand of Spokane Energy or the Trust, deliver to Spokane Energy or the Trustee all data necessary for the servicing of the Capacity Contract and the EPMI Contract.

Section 4.07. Performance of Obligations. The Servicer shall punctually perform and observe all of its obligations and agreements contained in this Agreement and the other Operative Documents.

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Section 4.08 Direction to Counterparties. On or before the Closing Date, Spokane Energy and the Servicer shall direct Portland General, in writing, to remit all Capacity Payments under the Capacity Contract which arise from sales of capacity conducted on or after the Closing Date directly to the Trustee for deposit into the Collection Account and shall maintain such directions in effect through the Final Retirement Date.

Section 4.09 No Resignation. Neither WWP nor any successor to WWP as Servicer shall resign as Servicer hereunder without the prior written consent of the Majority Purchasers.

Section 4.10 Operating Procedures. WWP shall perform its functions as Servicer in accordance with the Operating Procedures set forth on Exhibit B hereto and incorporated herein by reference. WWP may modify the Operating Procedures from time to time with notice to and the consent of the Trust and Spokane Energy, or without consent if the change is required to comply with the rules of the FERC or any applicable Governmental Authority; provided that the Operating Procedures shall at all times be consistent with WWP's obligation under Section 2.01, shall not materially depart from the standard practices, policies and procedures of others engaged in the performance of similar services and shall not have a Material Adverse Effect on its ability to perform its duties hereunder.

Section 4.11 No Modification. WWP may not amend, alter or otherwise modify after the Closing Date its servicing practices under this Agreement from time to time without notice to and the consent of the Trust and Spokane Energy; provided, however, that such consent shall not be required if the amendment, alteration or other modification is required to comply with the rules of the FERC or any applicable Governmental Authority; provided further, however, that such servicing practices shall at all times be consistent with WWP's obligation under Section 2.01, shall not materially depart from the standard practices, policies and procedures of others engaged in the performance of similar services and shall not have a Material Adverse Effect on its ability to perform its duties hereunder.

ARTICLE 5

SERVICER DEFAULTS AND REMEDIES

Section 5.01 Servicer Defaults. Any of the following acts or occurrences shall constitute "Servicer Defaults" under this Agreement:

(a) Failure on the part of the Servicer duly to observe or to perform (or cause to be observed or performed) any of the covenants or agreements of the Servicer under the Operative Documents to which it is a party, which failure continues unremedied for a period of 30 days after the earlier to occur of (i) notice thereof to the Servicer by the Trustee (on its own initiative or at the request of any Purchaser) or (ii) a Responsible Officer of the Servicer otherwise becoming aware of such failure:

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(b) Any representation or warranty made by the Servicer (or any of its officers) under or in connection with the Operative Documents shall prove to have been incorrect in any material respect when made and such materiality is continuing;

(c) The Servicer shall become the subject of a Bankruptcy Event: and

(d) Failure on the part of the Servicer to deposit into the Collection Account within 2 Business Days any monies received by it in respect of any Capacity Payment.

Section 5.02 Remedies. Upon the occurrence and continuation of a Servicer Default, the Trustee shall, at the direction of the Majority Purchasers, either personally or by attorney or agent without bringing any action or proceeding, or by a receiver to be appointed by a court in any appropriate action or proceeding, take whatever action at law or in equity may appear necessary or desirable to enforce performance or observance of any obligation, agreement, or covenant of the Servicer under this Agreement or the other Operative Documents, whether for specific performance of any agreement or covenant of the Servicer or in aid of the execution of any power granted to the Trust in this Agreement or the other Operative Documents and to recover the cost of enforcement for such Servicer Default.

Section 5.03 Liability.

(a) The Servicer agrees that it shall be fully liable for any failure on its part to observe or to perform any of the covenants or agreements of the Servicer under the Operative Documents to which it is a party or for any other Servicer Default, such liability to include liability for any damages (consequential or other) suffered by Spokane Energy, the Trust or the Purchasers.

(b) The Servicer agrees that it shall be fully liable for any set-off, abatement or other offset of any amounts payable by Portland General under the Capacity Contract caused by or arising out of (x) any action or inaction by WWP, pursuant to the Capacity Contract, prior to the Closing Date or (y) any other claim of whatever nature (whether as Servicer or otherwise) by Portland General against WWP whether occurring before or after the Closing Date

ARTICLE 6

REMOVAL AND REPLACEMENT OF SERVICER

Section 6.01 Removal and Replacement of Servicer.

(a) The Purchasers at any time may (i) remove the Servicer by written instrument or instruments, in duplicate, signed by each of the Majority Purchasers or the Trustee on behalf of the Trust and (ii) and, subject to Section 6.02, appoint a successor Servicer by written instrument or

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instruments, in duplicate, signed by the Majority Purchasers and the Trustee on behalf of the Trust; provided that such removal or replacement will not violate applicable Law.

(b) Any removal of the Servicer and appointment of a successor Servicer pursuant to this Section shall become effective upon acceptance of an appointment by the successor Servicer as provided in Section 6.02 hereof.

(c) No Servicer under this Agreement shall be personally liable for any action or omission of any predecessor or successor Servicer.

Section 6.02 Successor Servicer. Any successor Servicer appointed as provided in Section 6.01 hereof shall execute, acknowledge, and deliver to the Trust, Spokane Energy, EPMI and the Purchasers and to its predecessor Servicer, an instrument accepting such appointment and assuming all obligations of the Servicer hereunder; and without any further act, shall become fully vested with all the rights, powers, duties, and obligations of its predecessor hereunder, with like effect as if originally named as Servicer herein (subject, however, to the limitations set forth in Section 6.01(c)). The predecessor Servicer shall deliver to the successor Servicer the documents held by it pursuant to this Agreement and the other Operative Documents, together with all related documents and statements held hereunder. In addition, the predecessor Servicer shall execute and deliver such instruments and do such other things as may reasonably be required for fully vesting in the successor Servicer all rights, powers, duties and obligations of the Servicer under this Agreement and the other Operative Documents.

Section 6.03 Survival of Other Obligations. The obligations of any Servicer under this Agreement arising prior to any removal of such Servicer pursuant to Section 6.01 shall survive any such removal.

Section 6.04 No Recourse to Trustee. It is expressly understood and agreed by and between the parties hereto (i) that this Agreement is executed and delivered by Wilmington Trust Company, not in its individual capacity but solely as Trustee under the Declaration of Trust in the exercise of the power and authority conferred and vested in it as such Trustee, (ii) each of the representations, undertakings and agreements made herein by the Trustee are not personal representations, undertakings and agreements of Wilmington Trust Company, but are binding only on the Trust created pursuant to the Declaration of Trust, (iii) nothing contained herein shall be construed as creating any liability on Wilmington Trust Company, individually or personally, to perform any covenant of the Trust either expressed or implied herein, all such liability, if any, being expressly waived by the parties hereto and by any Person claiming by, through or under any such party, and (iv) under no circumstances shall Wilmington Trust Company be personally liable for the payment of any indebtedness or expense of the Trust or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by the Trust under this Agreement.

[SIGNATURE PAGES FOLLOW]

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

THE WASHINGTON WATER POWER
COMPANY, Individually and as the Servicer

By: Ronald R. Peterson
Name: Ronald R. Peterson
Title: Vice President and Treasurer

SPOKANE ENERGY, L.L.C.

By: The Washington Water Power Company,
as Manager

By: Ronald R. Peterson
Name: Ronald R. Peterson
Title: Vice President and Treasurer

ENRON POWER MARKETING, INC.

By: Jacob S. Thomas
Name: Jacob S. Thomas
Title: Attorney-in-Fact

WTH

[SIGNATURE PAGE TO SERVICE AGREEMENT]

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SPOKANE ENERGY FUNDING TRUST

By: WILMINGTON TRUST COMPANY, not in its individual capacity, but solely as Trustee of the Spokane Energy Funding Trust

By: _____
Name: **Patricia A. Evans**
Title: **Financial Services Officer**

[SIGNATURE PAGE TO SERVICE AGREEMENT]

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Schedule I

The Washington Water Power Company

Avista Coporation
1411 East Mission
Spokane. Washington 92207

with its mailing address to:
P. O. Box 3727
Spokane, Washington 99220-3717
Attention: Treasurer
Telephone Number: (509) 495-8045
Facsimile: (509) 495-4879

Exhibit A

**Year 2000 Readiness Disclosure
Supplement to Section 3.01(n)**

Overview

The Washington Water Power Company (the "Servicer") has in place a comprehensive program to address areas of risk associated with the Year 2000. Systems and programs that may be affected by the Year 2000 problem have been identified and activities are underway to make these systems Year 2000 ready. At this time, it is the Servicer's belief that all identified modifications that are within the Servicer's operating control will be made within the required time frames. All remediation and testing is expected to be completed by June 30, 1999.

State of Readiness

In order to address Year 2000 issues, several project activity teams were created and a comprehensive readiness plan was developed to bring the Servicer into Year 2000 readiness by the middle of 1999. The project was divided into four major categories of activities: Desktop Computer Systems, Business Systems, Supply Chain and Embedded Systems.

Desktop Computer Systems

All desktop computer hardware has been Year 2000 tested and an inventory and assessment of desktop resident third-party software has been completed. As a result, more than 350 of the Servicer's 1,100 desktop computers require hardware remediation, which is expected to be completed by mid-1999. All non-compliant third-party software programs are planned to be upgraded to a Year 2000 ready version by the middle of 1999. In addition, all critical business desktop applications are expected to be converted, tested and made Year 2000 ready by the middle of 1999.

Business Systems

Many of the Servicer's critical business systems would not have operated correctly in the year 2000 and beyond, and thus have been or are in the process of being re-programmed, upgraded or replaced. Key business systems have been inventoried and assessed. For example, the Servicer's Accounts Payable and General Ledger systems have been upgraded to year 2000 ready versions, while new Materials Management, Human Resources and Payroll systems are currently being installed. Year 2000 testing is in process on the Accounts Payable and General Ledger systems. Testing of the Servicer's Billing, Customer Service and Work Management systems will begin in October 1998 and is expected to be completed before the middle of 1999. A failure of these systems would not jeopardize the Servicer's ability to deliver energy services to

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customers, but might affect its ability to perform selected accounting and business-related functions.

Supply Chain

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

Embedded Systems

The Embedded System team is responsible for locating, assessing, testing, fixing or replacing microprocessor-controlled devices. Inventory and assessment is 90 percent complete, and to date very few embedded systems have been found that require remediation. None of these requiring remediation would have caused a disruption in service to our customers. Remediation and testing is complete at ten of the Servicer's eleven generation sites and these sites are Year 2000 ready. The combined output from these plants represents about 75 percent of the Servicer's overall generation capacity or about 900 megawatts.

The process for testing a generation facility for Year 2000 consists of identification and testing of all facility systems and system components; renovations of systems and components that fail the tests; and a full facility test where system clocks are manually moved forward and the entire plant is put into operation as if it were already the year 2000. The Servicer believes the eleventh and final facility will be Year 2000 ready by March 31, 1999.

The Servicer's Supervisory Control and Data Acquisition (SCADA) system, which monitors and controls the majority of the Servicer's generating and substation equipment and the transmission system, was run "in the Year 2000" for three days without incident. All testing of electric metering has been completed. Testing of devices in the Servicer's transmission and distribution substations systems is expected to be complete by June 30, 1999. Initial assessment indicates that most of the embedded systems in these areas are either already Year 2000 compliant or are not within an essential business system.

Costs

The Servicer estimates that the cost of its Year 2000 project will be approximately \$4-6.5 million in incremental costs during the 1997-1999 time period. Through September 30, 1998, the Servicer has spent \$2.2 million in incremental costs. These costs are being funded through operating cashflows. The Servicer does not expect costs associated with the Year 2000 project to materially affect the Servicer's earnings in any one year.

Risks

The Servicer believes the primary areas of Year 2000 risk to be internal business systems, which are discussed above, and external factors, which include the regional electric transmission grid and natural gas pipelines. There can be no guarantee that systems of other companies on which the Servicer's systems rely will be timely converted. A failure to convert by another company or a conversion that is incompatible with the Servicer's systems could have an effect on the Servicer's ability to provide energy services.

Electric

The Servicer is working with the other energy suppliers in the area to address risks related to the regional electric transmission grid, which consists of the interconnected transmission systems of each utility within the Western Systems Coordinating Council (WSCC). Such interconnected systems are critical to the reliability of each interconnected electric service provider, as the failure of one such interconnected provider to achieve Year 2000 compliance could disrupt the others from providing electric services. Should the regional electric transmission grid become unstable, power outages may occur. The Servicer is in the process of developing contingency plans, including re-starting from a system-wide outage. The Servicer is in the process of contacting its major suppliers of electricity to assess their Year 2000 preparations. The Servicer has met with one of its largest suppliers, Bonneville Power Administration, and exchanged information. The North American Electric Reliability Council (NERC) has responsibility for overseeing the efforts of the industry in the United States and is coordinating Year 2000 efforts and contingency planning within ten electric reliability councils throughout the United States. Coordination in the Servicer's region is through the WSCC. The WSCC, along with NERC, has set a deadline of December 31, 1998 for the development of contingency plans. The Servicer cannot assure Year 2000 compliance or assess the effect of non-compliance by systems or parties that the Servicer does not control.

Contingency Planning

The Servicer is in the process of developing contingency plans, which will include such topics as identifying key personnel, communications, and deployment plans, along with training and equipment. Plans are scheduled to be completed by December 31, 1998.

EXHIBIT B

Operating Procedures Section 4.10 of Service Agreement

The provisions of this Exhibit B describe the Operating Procedures applicable to the performance by The Washington Water Power Company ("WWP") of certain of its obligations under the Service Agreement (the "Agreement"), dated as of December 1, 1998, among WWP, as Servicer, Spokane Energy, L.L.C. ("Spokane Energy"), and the Spokane Energy Funding Trust (the "Trust"). These Operating Procedures shall be in effect for the term of the Agreement, unless modified pursuant to Sections 4.10 and 4.11 thereof.

To the extent that any provision of this Exhibit B purport to limit or conflict with any provision of the Service Agreement, the Service Agreement shall control over this Exhibit B.

A. Definitions

Unless otherwise defined in this Exhibit B, capitalized terms shall have the meaning ascribed to such terms set forth in the Glossary attached as Appendix A to the Loan Agreement.

"Active Day" – with respect to any Transaction, the calendar day when the Transaction is executed.

"Transaction" – either: (i) the receipt of power from a supplier by Spokane Energy and the delivery of the power by Spokane Energy to PGE, or (ii) the receipt of power from PGE by Spokane Energy and the delivery of the power to such supplier. A Transaction will be entered in WWP's Energy Accounting System as an accounting line or category.

"Preschedule Recording Services" – those functions described in Section B.1, below, associated with the prescheduling of an electric energy transaction prior to the Active Day.

"Transaction Implementation Services" – those functions described in Section B.2, below, associated with the real-time execution of the schedules and the initiation of real-time transactions.

B. Preschedule Recording and Transaction Implementation Service

WWP will provide Preschedule Recording and Transaction Implementation Service for Spokane Energy's Transactions.

Based upon the information supplied by Spokane Energy, WWP agrees to record preschedules and implement transactions in accordance with all applicable laws, rules, regulations and standards pertaining to the activities WWP undertakes in performance of this Exhibit B, and in accordance with prudent utility practices and generally accepted scheduling procedures in the WSCC region. Spokane Energy shall be responsible for the accuracy of

information it supplies to WWP for purposes of this Exhibit B. Both Parties acknowledge that inaccurate information used in preschedules or real-time changes may cause or contribute to an interruption or curtailment of electric service and consequent damage to consumers. Both Parties agree to use appropriate care in submitting and handling information required for performance of this Exhibit B. WWP shall not be obligated to provide these services for more than fifty (50) Transactions in any one (1) day.

1. Preschedule Recording. WWP will provide Preschedule Recording services upon request to Spokane Energy in accordance with this Section B. 1.

a. Whenever Spokane Energy seeks to schedule a Transaction, it shall provide to WWP and all other parties to the Transaction, the contractual information required by WWP to effectively administer the Transaction. Spokane Energy shall make best efforts to provide such information to WWP three (3) business days prior to the first active day of the Transaction, except in the case of a Transaction consummated by Spokane Energy less than three (3) business days prior to the first active day.

b. For Transactions which Spokane Energy seeks to implement through WWP prior to the Active Day, Spokane Energy shall arrange to have its transacting parties verify to WWP and all other parties to the Transaction, the information set forth in Section B. 1. a and shall arrange to have its transacting parties provide to WWP and all other parties to the Transaction, hourly energy schedules for the Active Day by 1500 Hours, Prevailing Pacific Time (PPT), of the last common business day before the Transactions are to occur. WWP will input the information received in accordance with Section B.1.a into WWP's Energy Accounting System.

c. At any time prior to thirty (30) minutes before the active hour, Spokane Energy may submit schedules for new Transactions or changes to Transactions not submitted pursuant to Section B.1.b. For such Transactions which Spokane Energy seeks to implement through WWP during the Active Day, WWP will input the information provided by Spokane Energy in accordance with Section B.1.a and B.1.b into its scheduling and dispatch Energy Accounting System.

2. WWP will provide Transaction Implementation services upon request to Spokane Energy in accordance with this Section B.2.

a. For all Transactions submitted pursuant to Section B. 1, WWP will take all appropriate actions to implement such Transactions.

b. WWP will have the right to adjust Spokane Energy Transactions as needed to maintain power system security and reliability on a real-time basis. WWP will be responsible for notifying all involved parties of changes made and will be responsible for working with parties to rectify any schedule discrepancies caused by such changes.

3. Miscellaneous. The provisions of Subsections B. 1. and B.2. shall be subject to change

by mutual agreement of both Parties pursuant to Sections 4.10 and 4.11 of the Service Agreement.

C. LIMITATIONS

1. The Service Agreement and this Exhibit B do not constitute any agreement for or obligate any Party to provide or make available any surplus energy, transmission service, spinning or operating reserves, control area service, backup service, load following, inadvertent correction or any other services involving interstate capacity or energy transactions, outside of the Services described herein.

2. WWP acknowledges that the information pertaining to Services that is provided by Spokane Energy to WWP under Subsections B. 1. and B.2. of this Exhibit is commercially sensitive to Spokane Energy. Accordingly, WWP agrees not to disclose such information to third parties, except as may be required by regulatory authority or for purposes of system reliability.

D. OBLIGATIONS

1. WWP shall provide Spokane Energy a written summary of all Transactions executed in a calendar month within the three (3) business days of the end of the month in which the Transactions take place. The Parties Authorized Representatives may amend such format at any time by mutual agreement.

2. Upon request and with reasonable advance notice, WWP shall also provide in a timely manner any additional information in its possession which is pertinent to its activities on behalf of Spokane Energy and which Spokane Energy reasonably requires to comply with any requirement for reporting to any government agency.

3. WWP will retain all records, regardless of form, of its activities on behalf of Spokane Energy for the same period and to the same extent as it retains records of its own scheduling and dispatch transactions. Spokane Energy shall have the right, at Spokane Energy's expense, to audit WWP records as reasonably necessary to: a) monitor WWP's performance of its obligations under this Agreement or Exhibit B, or b) resolve or defend any dispute, whether directly involving WWP or otherwise, to which such records are pertinent.

E. PRICE OF SERVICES

For services described above, WWP shall charge and Spokane Energy shall pay the following rates.

1. Set-up fee: A one-time fee of \$3,000 to reimburse WWP for all administrative and general expenses of initiating operations under this Agreement, payable on the Payment Date in January, 1999;

2. Minimum monthly fee: \$500 per month, whether or not Transactions are scheduled;

3. Transaction fees:

a. For Preschedule Recording and Transaction Implementation pursuant to Sections B.1 and B.2, Spokane Energy shall pay the greater of \$500 per month in accordance with Section E.2, above, or the total of the following:

i) Short-Term Transaction (Transactions that occur less than five (5) days per month): \$65 per Transaction-day;

ii) Medium-Term Transactions (Transactions that occur between five (5) and twenty (20) days per month): \$50 per Transaction-day;

iii) Long-Term Transactions (Transactions that occur over twenty (20) days per month): \$40 per Transaction-day;

b. For Transactions recorded or changes to records within the Active Day, Spokane Energy shall pay for real-time changes pursuant to Section B.1.c: \$10 per change per Transaction in excess of two (2) real-time changes per Transaction plus charges applicable pursuant to Section E.3.a. Submittal of a new Transaction during the Active Day shall be considered a change in regard to charges for real-time changes.

4. Spokane Energy agrees to reimburse WWP for all direct expenses (as distinct from setup fee) incurred by WWP in providing services under this Agreement, including, but not limited to telecommunication expense, dedicated telecommunication equipment, and dedicated computer hardware and software. However, Spokane Energy must be made aware of and approve such expenses prior to the expense being incurred.

5. Spokane Energy agrees to reimburse WWP for all applicable sales or similar taxes which WWP is required to collect as a result of any Transaction.

F. AUTHORIZED REPRESENTATIVES

Within thirty (30) days of the Closing Date, each Party shall designate an Authorized Representative. Authorized Representatives shall be authorized by the Parties to carry out the provisions of this Agreement, to resolve any disputes that fall under the provisions of this Agreement, and to provide liaison between the Parties.

G. REGULATORY AUTHORITY

1. If subsequent to the Closing Date the Service Agreement or this Exhibit B should become subject to acceptance for filing with the FERC or approval by any Governmental Authority, WWP shall prepare and prosecute such filing at its expense and, Spokane Energy

shall prepare a certificate of concurrence, if required. Each Party shall take such additional action as may be reasonably required to secure such regulatory approval.

2. Should the FERC or other Governmental Authority require modifications or additions to the Agreement or this Exhibit B as a condition of approval, the Parties shall work in good faith to incorporate such modifications.

3. Nothing in the Agreement or this Exhibit B is intended to constitute a dedication by WWP or Spokane Energy of any facilities to public use or to subject WWP or Spokane Energy to regulation by any state as a public utility.

G. UNCONTROLLABLE FORCES

Neither Party shall be considered to be in default in performance of any of its obligations except to make payment as specified when a failure of performance shall be due to an Uncontrollable Force. The term "Uncontrollable Force" means any cause beyond the control of the Party affected, including but not restricted to failure of or threat of failure of facilities, flood, drought, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance or disobedience, labor dispute, labor or material shortage, sabotage, restraint by court order or public authority, and action or non-action by or failure to obtain the necessary authorizations or approvals from any governmental agency or authority which by exercise of due diligence such Party could not reasonably have been expected to avoid and which by exercise of due diligence it has been unable to overcome. No Party shall, however, be relieved of liability for failure of performance if such failure be due to causes arising out of its negligence or due to removable or remediable causes which it fails to remove or remedy within a reasonable time period. Nothing contained herein shall be construed to require a Party to settle any strike or labor dispute in which it may be involved. Any Party rendered unable to fulfill any of its obligations by reason of an uncontrollable force shall give prompt written notice of such fact to the other party and shall exercise due diligence to remove such inability within a reasonable time period.