

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-05-_____

EXHIBIT No. ____ (RRP-7)

RONALD R. PETERSON

REPRESENTING AVISTA CORPORATION

Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-488-8880
Toll Free 800-727-8170



June 24, 2004

Mirant Oregon, LLC
c/o Mirant California
1350 Treat Blvd., Suite 500
Walnut Creek, CA 94597
Attn: Anne M. Cleary, President

Dear Ms. Cleary:

Enclosed please find two signed originals of the Letter of Intent for the potential purchase of Coyote Springs Unit 2 from Mirant Oregon, LLC. Please sign both originals and return one to me.

If you have any questions, please call me at 509 495-8093 or Ron Peterson at 509 495-8045.

Sincerely,

A handwritten signature in black ink that reads "Steven G. Silkworth". The signature is written in a cursive style with a small mark above the 'i' in "Silkworth".

Steven G. Silkworth
Wholesale Power Manager

Enclosure



Confidential and Proprietary

June 25, 2004

Mirant Oregon, LLC
c/o Mirant California
1350 Treat Blvd., Suite 500
Walnut Creek, CA 94597
Attn: Anne M. Cleary, President

Ladies and Gentlemen:

This letter of intent ("**Letter of Intent**"), effective on the date when executed by all the Parties hereto (the "**Effective Date**"), will evidence the current mutual intent, as set forth in Article I below, of MIRANT OREGON, LLC, a Delaware limited liability company ("**Mirant**"), and AVISTA CORPORATION, a Washington corporation ("**Avista**"), with respect to the potential purchase (the "**Transaction**") by Avista of Mirant's 50% undivided ownership interest, as tenant-in-common, in the Coyote Springs Unit 2 generation facility (the "**Facility**"), consisting of an approximately 280 MW gas-fired, combined-cycle power plant, in Boardman, Oregon, including Mirant's undivided ownership interest in certain components shared with the adjacent Coyote Springs Unit 1 generation facility owned by Portland General Electric. Mirant and Avista are sometimes referred to individually as a "**Party**" herein and collectively as the "**Parties.**" Mirant is wholly owned by Mirant Americas, Inc. ("**MAI**"). MAI and certain of its affiliates have filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the Northern District of Texas (the "**Bankruptcy Court**") and continue to operate their respective businesses as debtors and debtors in possession.

Attached to this Letter of Intent as Exhibit A is a proposal for the Transaction (the "**Proposal**") under which Mirant and Avista are prepared to complete the Transaction if they are able to reach mutually satisfactory definitive agreements for consummation of the Transaction and if they evidence their willingness to proceed with the Transaction by executing and delivering those agreements.

The matters set forth in Article I and Exhibit A are not intended to and do not constitute a binding agreement of the Parties to consummate the Transaction. Any such binding agreement between the Parties will only arise upon the negotiation, execution and delivery of mutually satisfactory definitive agreements and the satisfaction of the conditions set forth therein, including without limitation, the satisfactory completion by the Parties of their respective due diligence inquiries and the approval of such agreements by the Parties' respective board of directors or other required internal approval, all required regulatory approvals and satisfaction of certain requirements of the Bankruptcy Code, including approval of the Bankruptcy Court and any requisite approvals pursuant to MAI's postpetition debtor in possession financing facility.

The matters set forth in Article II do constitute binding agreements of the Parties.

Article I Transaction Documents

1. **Definitive Agreements.** The Parties will exercise good-faith efforts to diligently negotiate an Asset Purchase Agreement with respect to the Facility and such other definitive agreements necessary to accomplish the Transaction (collectively, the "*Definitive Agreements*"). The Parties anticipate that Definitive Agreements, if entered into, will include provisions substantially similar to those set forth in the Proposal, together with such other provisions as the Parties may conclude are necessary or appropriate for the consummation of the Transaction.
2. **No Obligation to Enter.** Neither Party is obligated by this Letter of Intent to enter into any of the Definitive Agreements with the other Party with respect to the Transaction or any other matter.

Article II Binding Provisions

1. **Confidentiality.** The Parties agree that this Letter of Intent and the matters identified in it are "Confidential Information" under the provisions of that certain Confidentiality Agreement dated of even date herewith, between Mirant and Avista (the "*Confidentiality Agreement*"), and that the terms and conditions of the Confidentiality Agreement remain in full force and effect.
2. **Term.** Unless extended or earlier terminated by mutual written agreement of the Parties, this Letter of Intent shall remain in effect during the period from the Effective Date until the earliest to occur of (a) the execution of Definitive Agreements, (b) the date on which either party provides the other with written notice that negotiations toward Definitive Agreements are terminated, or (c) July 31, 2004, (the earliest to occur of such dates being referred to herein as the "*Termination Date*").
3. **Restricted Dealings.** During the term of this Letter of Intent, Mirant agrees not to, and agrees to cause its affiliates and representatives not to, solicit or entertain offers from, negotiate with or in any manner encourage, discuss, accept or consider any proposal of any other person or entity relating to the sale, acquisition or transfer of Mirant's interest in the Facility. During the term of this Letter of Intent, Avista agrees not to, and agrees to cause its affiliates and representatives not to, solicit or entertain offers from, negotiate with or in any manner encourage, discuss, accept or consider any proposal of any other person or entity relating to the sale or transfer by Avista (or its affiliates or representatives) of all or part of a power generation asset in Boardman, Oregon or within the surrounding 50 miles thereof. In the event that the parties execute Definitive Agreements, it is understood that the Transaction contemplated thereby will be subject to higher or otherwise better offers submitted in connection with a Bankruptcy Court supervised auction and sale approval process; provided that such process shall be conducted in accordance with the procedures set forth in such Definitive Agreements, as more specifically contemplated on Exhibit A.

4. **Capital and Operating Expenses.** For the avoidance of doubt, the obligations of the Parties to fund capital and operating expenses of the Facility shall be as provided in the Co-Tenancy and Joint Operating Agreement, dated as of January 1, 2003 between the Parties (the "**Operating Agreement**"). Notwithstanding the foregoing, for the period from the date of this Letter of Intent until the closing under Definitive Agreements (provided the Transaction is consummated): (i) any capital expenditures made by Mirant shall be repaid to Mirant in full at such closing, and (ii) any prepaid operating expenditures made by Mirant shall be repaid to Mirant as part of a working capital adjustment under the Definitive Agreements.

5. **Expenses.** Each Party shall bear its own costs and expenses associated with negotiating and performing under this Letter of Intent; provided however, that if the Parties execute Definitive Agreements, Avista will be entitled to customary bidding protections and procedures as set forth in Exhibit A. For the avoidance of doubt, the expenses of Coyote Springs 2, LLC, a Delaware limited liability company (the "**Project Company**") associated with negotiating this Letter of Intent and any Definitive Agreements and the execution of the Transaction (including without limitation the fees and expenses of Heller Ehrman White & McAuliffe LLP, counsel to the Project Company, shall be borne by the Project Company which shall be funded 50% by Mirant and 50% by Avista for this purpose.

6. **Approval.** Neither Party shall be bound by any of the Definitive Agreements until (a) such Party's respective board of directors, or other required internal approval process, shall have approved such Definitive Agreements, (b) such Party shall have executed such Definitive Agreements, and (c) all conditions precedent to the effectiveness of such Definitive Agreements shall have been satisfied, including without limitation any conditions precedent relating to (i) the obtaining of any and all requisite federal, state or local regulatory orders, consents or approvals and (ii) payment by Mirant of its outstanding obligations pursuant to the Operating Agreement. Without limiting in any manner the foregoing, the Parties acknowledge and agree that in no event shall either Party be obligated to proceed with the Transaction, and that each may, prior to the execution and delivery of such Definitive Agreements, decline to proceed with the Transaction in its sole discretion.

7. **Entire Agreement.** The binding portions of this Letter of Intent, together with the Proposal, constitute the entire agreement of the Parties relating to the subject matter hereof and supersede all prior discussions, agreements or understandings, whether oral or written, relating to such subject matter. There are no other written or oral agreements or understandings among the Parties with respect to the Transaction. Any waiver of any term or amendment of this Letter of Intent must be written and signed by both Parties. The binding provisions of this Letter of Intent may not be waived except in writing by the Party who has the right to enforce such provisions; provided, however, that Paragraphs 6, 9 and 12 may not be waived under any circumstances. No failure to exercise, no delay in exercising, and no course of dealing or trade custom with respect to, any provision of this Letter of Intent shall be deemed to waive any such provision.

8. **Governing Law.** This letter of intent shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to conflict of laws principles.

9. Non-Inclusive; Non-Binding. Neither this Letter of Intent, the attached Proposal, nor any other proposal, correspondence or course of dealing identifies all matters upon which agreement must be reached in order for the Transaction to be completed or for any Definitive Agreements to be finalized and executed. Except with respect to the obligations of the Parties expressly set forth in Article II, this Letter of Intent does not create and is not intended to create a binding and enforceable contract between the Parties as to the Transaction or any obligation to enter into or proceed with the Transaction, and may not be relied upon by a Party as the basis for a contract by estoppel or otherwise with respect to any matter. A binding commitment with respect to the Transaction can only result from the execution and delivery of Definitive Agreements.

10. Assignment. Neither Party may assign or otherwise transfer its interest in this Letter of Intent without the prior written consent of the other Party.

11. Relationship of the Parties. The Parties shall not be deemed in a relationship of partners or joint venturers by virtue of this Letter of Intent, nor shall either Party be an agent, representative, trustee or fiduciary of the other. Neither Party shall have any authority under this Letter of Intent to bind the other to any agreement or obligation.

12. Limitation of Liability. UNDER NO CIRCUMSTANCES SHALL EITHER PARTY HERETO BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES, LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, WHETHER BY STATUTE, IN TORT OR CONTRACT OR OTHERWISE, IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY.

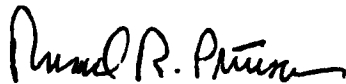
13. Confidentiality; Press Releases. Each of the Parties agrees that, except as required by law, it will not disclose to any person other than its representatives the identity of the other Parties as it relates to the negotiation of the Transaction. Neither Party shall issue a press release or make any public statement with respect to the Transaction without the prior approval of the other Party, which approval shall not be unreasonably withheld or delayed.

If the provisions of Article I and Exhibit A correctly set forth our current understanding as to the non-binding nature of our discussions regarding Definitive Agreements, and the provisions of Article II set forth our binding agreements with respect to the matters set forth therein, please execute both originals of this Letter of Intent in the space provided below, retain one fully-executed original for your file, and return one of the other originals to the undersigned. This Letter of Intent may be executed in counterparts, and all such counterparts together shall constitute but one agreement.

Very truly yours,

AVISTA CORPORATION

By: _____



Name: Ronald R. Peterson

Title: Vice President Energy Resources

Acknowledged, Agreed to and Accepted,

ATW

this 12th day of ~~June~~, 2004:

JULY

MIRANT OREGON, LLC

By: *Anne M. Cleary*
Name: Anne M. Cleary
Title: President

Exhibit A
Proposed Terms and Conditions

<p>1. Purchase Price.</p>	<p>The Purchase Price for Mirant's 50% undivided ownership interest, as tenant-in-common, in the Facility will be in the form of a cash payment by Avista to Mirant in an amount equal to US\$62,500,000.00 in immediately available funds to be made at closing.</p> <p>If Mirant agrees to sell, and Avista agrees to buy, Mirant's 50% ownership interest in the Project Company as part of the Transaction, Mirant and Avista will agree upon a mutually acceptable price.</p>
<p>2. No Financing Contingency.</p>	<p>Avista has ample funds available to support its offer; accordingly, Avista's offer is not subject to any financing contingency.</p>
<p>3. Deposit.</p>	<p>Upon completion of due diligence and execution of Definitive Agreements, Avista shall deposit into escrow with a third party custodian reasonably satisfactory to Mirant an amount to be agreed that will be in immediately available funds (the "Deposit"). If the Transaction is consummated, the Deposit shall be applied as a partial payment of the Purchase Price. If the Transaction is not consummated for any reason (other than due to a breach by Avista of the Definitive Agreements that leads to termination of the Definitive Agreements in accordance with their terms), the Deposit shall be refunded to Avista.</p>
<p>4. Closing.</p>	<p>Subject to, among other things, receipt of any required third-party, governmental or other regulatory approvals and satisfaction of Mirant's outstanding funding obligations, if any, pursuant to the Operating Agreement, it is anticipated that the transaction could be closed within 45-60 days of the date that a motion is filed by MAI and/or its debtor affiliates with the Bankruptcy Court seeking appropriate approval of the Transaction. Closing shall occur within 5 Business Days after all conditions precedent have been satisfied.</p>
<p>5. Approvals</p>	<p>Avista shall be responsible for filing all necessary Hart-Scott-Rodino ("HSR"), Federal Electric Regulatory Commission ("FERC") and Oregon Energy Facility Siting Council approvals. Mirant shall use commercially</p>

	<p>reasonable efforts to assist Avista in obtaining all regulatory approvals. MAI and Mirant shall use their commercially reasonable efforts to obtain Bankruptcy Court approval of orders, both in form and substance acceptable to Avista, (a) approving bidding protections and procedures, as described in paragraph 7 hereof, and (b) authorizing the consummation of the Transaction, each within the time periods prescribed in the Definitive Agreements.</p>
<p>6. Related Transmission Agreements</p>	<p>It is understood that the power transmission agreements listed on Annex I hereto are currently held by MAI or its debtor affiliates for the benefit of Mirant's 50% interest in the Facility. The parties agree that, to the extent possible and economically practicable, MAI or its debtor affiliates will transfer or assign such agreements or otherwise make available such power transmission service as part of the Transaction. The parties recognize that any assignment of such agreements may require (i) the filing of a motion by MAI and/or its debtor affiliates with the Bankruptcy Court for approval of such assignment and (ii) FERC approval. The parties further agree that to the extent possible and economically practicable, MAI or its debtor affiliates will transfer or assign any requests MAI or its debtor affiliates have pending for long-term transmission service from the Bonneville Power Administration or other transmission providers.</p>
<p>7. Timing</p>	<p>The Parties anticipate that the Transaction will be subject to higher or otherwise better offers submitted in connection with a Bankruptcy Court supervised auction and sale approval process (Parties shall consider jointly whether auction process will be run through the Bankruptcy Court). Accordingly, the Parties anticipate the following steps in the Transaction:</p> <ul style="list-style-type: none"> • Execution of this Letter of Intent; • Negotiation and execution of mutually acceptable Definitive Agreements; • Filing of motion by MAI and/or its debtor affiliates with the Bankruptcy Court to seek approval of the Transaction and customary bidding protections and procedures, including without limitation, customary overbid protections and payment of a termination fee expected to be in the range of 2-3% of the Purchase Price (the

	<p>“Termination Fee”) and payment of Avista’s reasonable fees and expenses up to a cap to be agreed, including attorneys fees and expenses, in certain specified circumstances to be defined in the Definitive Agreements; <u>provided</u>, that in the event the auction process is not run through the Bankruptcy Court, the parties will provide for such bidding protections and procedures in the Definitive Agreements.</p> <ul style="list-style-type: none"> • Filing of all requisite regulatory approvals, including without limitation Hart-Scott-Rodino filing, FERC filing and approval from the Oregon Energy Facility Siting Council for permission to transfer the Site Certificate.
<p>8. Approval of Third Person Purchaser</p>	<p>It is understood, that if in accordance with the procedures referenced above Mirant’s interest in the Facility is to be transferred to a person other than Avista, such transfer shall be to a third party that meets certain minimum qualifications substantially based on those set forth in the definition of a Third Person Purchaser in the Operating Agreement and as Mirant and Avista shall agree otherwise in the Definitive Agreements.</p>
<p>9. Documentation.</p>	<p>It is anticipated that the Transaction will be subject to the same basic documentation that similar transactions between the parties or their affiliates have used previously. Mirant and Avista acknowledge and agree that neither party may retain Heller Erhman White & McAuliffe LLP in relation to the Transaction, however Heller Erhman White & McAuliffe LLP may be retained solely by Coyote Springs 2, LLC for assistance in providing form documents and in seeking appropriate approvals (including those set forth in paragraph 4 of this Proposal) and the Project Company shall be responsible for Heller Ehrman’s fees and expenses. Both Mirant and Avista shall retain separate counsel to assist and advise on the Definitive Agreements and the Transaction generally.</p>