Table of Contents

CONFORMED

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

Washington	91-0462470
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1411 East Mission Avenue, Spokane, Washington	99202-2600
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 509-489-0500

Web site: http://www.avistacorp.com

None

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of July 31, 2002, 47,845,628 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

TABLE OF CONTENTS

Table of Contents

AVISTA CORPORATION

Index

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Avista Corporation

For the Three Months Ended June 30
Dollars in thousands, except per share amounts

	2002	2001
OPERATING REVENUES	$751,412	$1,546,493
OPERATING EXPENSES:		
Resource costs	611,304	1,386,458
Operations and maintenance	29,423	34,885
Administrative and general	37,082	34,793
Depreciation and amortization	18,118	18,007
Taxes other than income taxes	16,609	15,800
Total operating expenses	712,536	1,489,943
INCOME FROM OPERATIONS	38,876	56,550
OTHER INCOME (EXPENSE):		
Interest expense	(26,754)	(28,014)
Capitalized interest	2,095	2,470
Net interest expense	(24,659)	(25,544)
Other income — net	3,504	11,463
Total other income (expense) — net	(21,155)	(14,081)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	17,721	42,469
INCOME TAXES	8,390	16,489
INCOME FROM CONTINUING OPERATIONS	9,331	25,980
DISCONTINUED OPERATIONS (Note 3):		
Income (loss) before minority interest and income taxes	1,557	(5,546)
Minority interest	—	351
Income tax benefit (expense)	(543)	1,940
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	1,014	(3,255)
NET INCOME	10,345	22,725
DEDUCT — Preferred stock dividend requirements	608	608
INCOME AVAILABLE FOR COMMON STOCK	$ 9,737	$ 22,117
Weighted-average common shares outstanding (thousands), Basic	47,774	47,372
EARNINGS PER COMMON SHARE, BASIC AND DILUTED (Note 7):		
Earnings per common share from continuing operations	$ 0.18	$ 0.54
Earnings (loss) per common share from discontinued operations	0.02	(0.07)
Total earnings per common share, basic and diluted	$ 0.20	$ 0.47
Dividends paid per common share	$ 0.12	$ 0.12
NET INCOME	$ 10,345	$ 22,725
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment	517	72
Unrealized loss on interest rate swap agreements	(344)	—
Unrealized investments gains (losses) — net of tax	(911)	649
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(738)	721
COMPREHENSIVE INCOME	$ 9,607	$ 23,446

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Avista Corporation

For the Six Months Ended June 30
Dollars in thousands, except per share amounts

	2002	2001
OPERATING REVENUES	$1,501,433	$3,571,375
OPERATING EXPENSES:		
Resource costs	1,220,292	3,246,640
Operations and maintenance	60,527	64,803
Administrative and general	62,300	68,380
Depreciation and amortization	36,102	35,980
Taxes other than income taxes	36,829	33,576
Total operating expenses	1,416,050	3,449,379
INCOME FROM OPERATIONS	85,383	121,996
OTHER INCOME (EXPENSE):		
Interest expense	(55,666)	(49,067)
Capitalized interest	4,390	4,546
Net interest expense	(51,276)	(44,521)
Other income — net	10,714	18,682
Total other income (expense) — net	(40,562)	(25,839)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	44,821	96,157
INCOME TAXES	19,970	38,056
INCOME FROM CONTINUING OPERATIONS	24,851	58,101
DISCONTINUED OPERATIONS (Note 3):		
Income (loss) before minority interest and income taxes	1,139	(10,637)
Minority interest	—	942
Income tax benefit (expense)	(397)	3,722
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	742	(5,973)
NET INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	25,593	52,128
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (net of tax) (Note 2)	(4,148)	—
NET INCOME	21,445	52,128
DEDUCT — Preferred stock dividend requirements	1,216	1,216
INCOME AVAILABLE FOR COMMON STOCK	$ 20,229	$ 50,912
Weighted-average common shares outstanding (thousands), Basic	47,723	47,305
EARNINGS PER COMMON SHARE, BASIC AND DILUTED (Note 7):		
Earnings per common share from continuing operations	$ 0.49	$ 1.21
Earnings (loss) per common share from discontinued operations	0.02	(0.13)
Earnings per common share before cumulative effect of accounting change	0.51	1.08
Loss per common share from cumulative effect of accounting change	(0.09)	—
Total earnings per common share, basic and diluted	$ 0.42	$ 1.08
Dividends paid per common share	$ 0.24	$ 0.24
NET INCOME	$ 21,445	$ 52,128
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment	151	58
Unrealized loss on interest rate swap agreements	(344)	—
Unrealized investments gains (losses) — net of tax	(934)	2,214
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(1,127)	2,272
COMPREHENSIVE INCOME	$ 20,318	$ 54,400

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED BALANCE SHEETS

Avista Corporation

Dollars in thousands

	June 30, 2002	December 31, 2001
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 142,475	$ 171,221
Temporary investments	—	1,872
Accounts and notes receivable — less allowances of $47,319 and $50,211, respectively	293,428	388,083
Energy commodity assets	463,460	477,037
Materials and supplies, fuel stock and natural gas stored	20,298	21,776
Taxes receivable	—	32,348
Prepayments and other current assets	25,432	19,364
Assets held for sale from discontinued operations	21,615	21,316
Total current assets	966,708	1,133,017
NET UTILITY PROPERTY:		
Utility plant in service	2,335,578	2,277,779
Construction work in progress	26,814	54,964
Total	2,362,392	2,332,743
Less: Accumulated depreciation and amortization	795,796	767,101
Total net utility property	1,566,596	1,565,642
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power — net	42,058	43,314
Non-utility properties and investments — net	220,146	230,800
Non-current energy commodity assets	331,193	383,497
Other property and investments — net	13,258	13,620
Total other property and investments	606,655	671,231
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	144,334	149,033
Other regulatory assets	85,567	192,760
Utility energy commodity derivative assets	19,138	1,889
Power and natural gas deferrals	184,267	265,063
Unamortized debt expense	54,109	41,222
Other deferred charges	22,884	17,366
Total deferred charges	510,299	667,333
TOTAL ASSETS	$3,650,258	$4,037,223
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 304,768	$ 367,899
Energy commodity liabilities	367,094	373,837
Current portion of long-term debt	13,102	1,827
Short-term borrowings	74,499	75,099
Interest accrued	22,447	18,583
Other current liabilities	93,344	84,587
Liabilities of discontinued operations	6,279	6,642
Total current liabilities	881,533	928,474
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	47,880	46,601
Deferred revenue	15,936	35,824
Non-current energy commodity liabilities	276,534	299,980
Utility energy commodity derivative liabilities	72,396	159,418
Deferred income taxes	484,541	517,428
Other deferred credits	20,395	18,720
Total non-current liabilities and deferred credits	917,682	1,077,971
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,851,043	2,030,778
COMMITMENTS AND CONTINGENCIES (Note 9)		
TOTAL LIABILITIES AND CAPITALIZATION	$3,650,258	$4,037,223

CONSOLIDATED STATEMENTS OF CAPITALIZATION

Avista Corporation

Dollars in thousands

	June 30, 2002	December 31, 2001
LONG-TERM DEBT:		
First Mortgage Bonds:		
Secured Medium-Term Notes:		
Series A — 6.25% to 7.90% due 2003 through 2023	$ 104,500	$ 104,500
Series B — 6.50% to 7.89% due 2005 through 2010	59,000	59,000
Total secured medium-term notes	163,500	163,500
First Mortgage Bonds — 7.75% due 2007	150,000	150,000
Total first mortgage bonds	313,500	313,500
Unsecured Pollution Control Bonds:		
Colstrip 1999A, due 2032	66,700	66,700
Colstrip 1999B, due 2034	17,000	17,000
6% Series due 2023	4,100	4,100
Total unsecured pollution control bonds	87,800	87,800
Unsecured Notes:		
Unsecured Medium-Term Notes:		
Series A — 7.94% due 2007	3,000	13,000
Series B — 7.42% to 8.23% due 2004 through 2023	74,000	79,000
Series C — 5.99% to 8.02% due 2007 through 2028	99,000	109,000
Series D — 9.125% due 2003	52,950	175,000
Total unsecured medium-term notes	228,950	376,000
Unsecured 9.75% Senior Notes due 2008	356,220	400,000
Total unsecured notes	585,170	776,000
Other long-term debt	508	962
Unamortized debt discount	(2,346)	(2,547)
Total long-term debt	984,632	1,175,715
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7.875%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	40,000	40,000
Total company-obligated mandatorily redeemable preferred trust securities	100,000	100,000
PREFERRED STOCK — CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized; 47,830,058 and 47,632,678 shares outstanding	620,617	617,737
Note receivable from employee stock ownership plan	(4,934)	(5,679)
Capital stock expense and other paid in capital	(11,928)	(11,924)
Accumulated other comprehensive loss	(1,227)	(99)
Retained earnings	128,883	120,028
Total common equity	731,411	720,063
TOTAL CAPITALIZATION	$1,851,043	$2,030,778

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Avista Corporation

For the Six Months Ended June 30
Dollars in thousands

	2002	2001
CONTINUING OPERATING ACTIVITIES:		
Net income	$ 21,445	$ 52,128
Loss (income) from discontinued operations	(742)	5,973
Cumulative effect of accounting change	4,148	—
Non-cash items included in net income:		
Depreciation and amortization	36,102	35,980
Provision for deferred income taxes	(25,477)	55,593
Power and natural gas cost amortizations (deferrals) including interest, net	81,737	(141,075)
Energy commodity assets and liabilities	34,796	(16,440)
Other-net	(11,153)	6,640
Changes in working capital components:		
Sale of customer accounts receivable-net	(18,000)	(4,000)
Receivables and prepaid expense	113,902	459,688
Materials and supplies, fuel stock and natural gas stored	1,478	2,280
Accounts payable and other accrued liabilities	(22,232)	(418,150)
Other	(22,976)	(12,773)
NET CASH PROVIDED BY CONTINUING OPERATING ACTIVITIES	193,028	25,844
CONTINUING INVESTING ACTIVITIES:		
Utility property construction expenditures (excluding AFUDC)	(32,928)	(55,365)
Other capital expenditures	(4,750)	(96,782)
Changes in other non-current balance sheet items-net	5,575	(1,065)
Assets acquired and investments in subsidiaries	(274)	(349)
NET CASH USED IN CONTINUING INVESTING ACTIVITIES	(32,377)	(153,561)
CONTINUING FINANCING ACTIVITIES:		
Decrease in short-term borrowings	(600)	(163,160)
Proceeds from issuance of long-term debt	—	400,000
Redemption and maturity of long-term debt	(180,010)	(24,976)
Issuance of common stock	3,702	5,423
Cash dividends paid	(12,770)	(12,586)
Other-net	201	(3,249)
NET CASH PROVIDED BY (USED IN) CONTINUING FINANCING ACTIVITIES	(189,477)	201,452
NET CASH PROVIDED BY (USED IN) CONTINUING OPERATIONS	(28,826)	73,735
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	80	(21,165)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(28,746)	52,570
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	171,221	197,238
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 142,475	$ 249,808
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the period:		
Interest	$ 47,494	$ 37,793
Income taxes	(25,951)	(21,975)
Non-cash financing and investing activities:		
Intangibles acquired through issuance of subsidiary stock	—	1,286
Property purchased under capitalized leases	—	469
Unrealized investment gains (losses)	(1,436)	3,405

The Accompanying Notes are an Integral Part of These Statements.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Three Months Ended June 30
Dollars in thousands

	2002	2001
OPERATING REVENUES:		
Avista Utilities	$190,973	$ 317,066
Energy Trading and Marketing	574,258	1,263,484
Information and Technology	4,030	3,142
Other	3,452	3,534
Intersegment eliminations	(21,301)	(40,733)
Total operating revenues	$751,412	$1,546,493
RESOURCE COSTS:		
Avista Utilities:		
Power purchased	$ 12,159	$ 215,115
Natural gas purchased	32,081	33,211
Fuel for generation	3,252	26,159
Power and natural gas cost amortizations (deferrals), net	13,096	(67,871)
Other	17,666	4,486
Energy Trading and Marketing:		
Cost of sales	554,351	1,216,091
Intersegment eliminations	(21,301)	(40,733)
Total resource costs (Avista Utilities and Energy Trading and Marketing)	$611,304	$1,386,458
GROSS MARGINS (Avista Utilities and Energy Trading and Marketing):		
Avista Utilities	$112,719	$ 105,966
Energy Trading and Marketing	19,907	47,393
Total gross margins (Avista Utilities and Energy Trading and Marketing)	$132,626	$ 153,359
OPERATIONS AND MAINTENANCE EXPENSES:		
Avista Utilities	$ 23,283	$ 27,530
Energy Trading and Marketing	—	195
Information and Technology	2,603	3,367
Other	3,537	3,793
Total operations and maintenance expenses	$ 29,423	$ 34,885
ADMINISTRATIVE AND GENERAL EXPENSES:		
Avista Utilities	$ 16,108	$ 14,495
Energy Trading and Marketing	6,905	10,832
Information and Technology	6,041	6,544
Other	8,028	2,922
Total administrative and general expenses	$ 37,082	$ 34,793
DEPRECIATION AND AMORTIZATION EXPENSES:		
Avista Utilities	$ 16,250	$ 15,405
Energy Trading and Marketing	309	474
Information and Technology	1,127	1,285
Other	432	843
Total depreciation and amortization expenses	$ 18,118	$ 18,007

	2002	2001
INCOME FROM OPERATIONS (PRE-TAX):		
Avista Utilities	$ 41,194	$ 34,517
Energy Trading and Marketing	12,306	34,762
Information and Technology	(6,060)	(8,695)
Other	(8,564)	(4,034)
Total income from operations	$ 38,876	$ 56,550
INCOME FROM CONTINUING OPERATIONS:		
Avista Utilities	$ 12,004	$ 10,129
Energy Trading and Marketing	8,506	23,605
Information and Technology	(4,315)	(5,727)
Other	(6,864)	(2,027)
Total income from continuing operations	$ 9,331	$ 25,980
ASSETS (2001 amounts as of December 31):		
Avista Utilities	$2,180,948	$2,396,317
Energy Trading and Marketing	1,346,777	1,506,185
Information and Technology	31,518	26,891
Other	69,400	86,514
Discontinued Operations	21,615	21,316
Total assets	$3,650,258	$4,037,223
CAPITAL EXPENDITURES (excluding AFUDC):		
Avista Utilities	$ 14,454	$ 36,187
Energy Trading and Marketing	2,266	52,868
Information and Technology	13	880
Other	63	—
Total capital expenditures	$ 16,796	$ 89,935

The Accompanying Notes are an Integral Part of These Statements.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Six Months Ended June 30
Dollars in thousands

	2002	2001
OPERATING REVENUES:		
Avista Utilities	$ 476,631	$ 732,693
Energy Trading and Marketing	1,067,639	2,992,385
Information and Technology	7,979	6,117
Other	6,379	9,225
Intersegment eliminations	(57,195)	(169,045)
Total operating revenues	$1,501,433	$3,571,375
RESOURCE COSTS:		
Avista Utilities:		
Power purchased	$ 41,941	$ 458,548
Natural gas purchased	102,723	150,094
Fuel for generation	8,931	52,074
Power and natural gas cost amortizations (deferrals), net	63,385	(134,506)
Other	27,220	(5,953)
Energy Trading and Marketing:		
Cost of sales	1,033,287	2,895,428
Intersegment eliminations	(57,195)	(169,045)
Total resource costs (Avista Utilities and Energy Trading and Marketing)	$1,220,292	$3,246,640
GROSS MARGINS (Avista Utilities and Energy Trading and Marketing):		
Avista Utilities	$ 232,431	$ 212,436
Energy Trading and Marketing	34,352	96,957
Total gross margins (Avista Utilities and Energy Trading and Marketing)	$ 266,783	$ 309,393
OPERATIONS AND MAINTENANCE EXPENSES:		
Avista Utilities	$ 47,873	$ 50,454
Energy Trading and Marketing	—	205
Information and Technology	5,694	5,933
Other	6,960	8,211
Total operations and maintenance expenses	$ 60,527	$ 64,803
ADMINISTRATIVE AND GENERAL EXPENSES:		
Avista Utilities	$ 30,550	$ 29,023
Energy Trading and Marketing	11,201	22,686
Information and Technology	10,730	12,283
Other	9,819	4,388
Total administrative and general expenses	$ 62,300	$ 68,380
DEPRECIATION AND AMORTIZATION EXPENSES:		
Avista Utilities	$ 32,477	$ 30,632
Energy Trading and Marketing	695	947
Information and Technology	2,114	2,703
Other	816	1,698
Total depreciation and amortization expenses	$ 36,102	$ 35,980

	2002	2001
INCOME FROM OPERATIONS (PRE-TAX):		
Avista Utilities	$ 86,390	$ 72,172
Energy Trading and Marketing	21,430	70,845
Information and Technology	(11,181)	(15,902)
Other	(11,256)	(5,119)
Total income from operations	$ 85,383	$ 121,996
INCOME FROM CONTINUING OPERATIONS:		
Avista Utilities	$ 25,249	$ 23,201
Energy Trading and Marketing	16,686	48,344
Information and Technology	(7,063)	(10,713)
Other	(10,021)	(2,731)
Total income from continuing operations	$ 24,851	$ 58,101
ASSETS (2001 amounts as of December 31):		
Avista Utilities	$2,180,948	$2,396,317
Energy Trading and Marketing	1,346,777	1,506,185
Information and Technology	31,518	26,891
Other	69,400	86,514
Discontinued Operations	21,615	21,316
Total assets	$3,650,258	$4,037,223
CAPITAL EXPENDITURES (excluding AFUDC):		
Avista Utilities	$ 32,928	$ 55,365
Energy Trading and Marketing	4,381	93,298
Information and Technology	299	3,344
Other	70	379
Total capital expenditures	$ 37,678	$ 152,386

The Accompanying Notes are an Integral Part of These Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended June 30, 2002 and 2001 are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the results of operations for those interim periods. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The Consolidated Statements of Income for the interim periods are not necessarily indicative of the results to be expected for the full year. These consolidated financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year consolidated financial statements; therefore, they should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (2001 Form 10-K).

Please refer to the section "Acronyms and Terms" in the 2001 Form 10-K for definitions of terms such as capacity, energy and therm.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations
Avista Corp. is an energy company involved in the generation, transmission and distribution of energy as well as other energy-related businesses. The utility portion of the Company, doing business as Avista Utilities, an operating division of Avista Corp. and not a separate entity, provides electric and natural gas service to customers in four western states and is subject to state and federal regulation. Avista Capital, a wholly owned subsidiary of Avista Corp., is the parent company of all of the subsidiary companies engaged in the other non-utility lines of business.

The Company's operations are exposed to risks, including, but not limited to, legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale purchases and sales.

Basis of Reporting
The consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries. The accompanying financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants.

Use of Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein.

Business Segments
Financial information for each of the Company's lines of business is reported in the "Schedule of Information by Business Segments." Such information is an integral part of these consolidated financial statements. The business segment presentation reflects the basis currently used by the Company's management to analyze performance and determine the allocation of resources. Avista Utilities' business is managed based on the total regulated utility operation. The Energy Trading and Marketing line of business operations primarily include non-regulated electricity and natural gas marketing and trading activities including derivative commodity instruments such as futures, options, swaps and other contractual arrangements. The Information and Technology line of business operations includes utility internet billing services and fuel cell technology. The Other line of business includes other investments and operations of various subsidiaries as well as the operations of Avista Capital on a parent company only basis.

Operating Revenues
Operating revenues are recorded on the basis of service rendered, which includes estimated unbilled revenue. Avista Energy follows the mark-to-market method of accounting for energy contracts entered into for trading and price risk

management purposes in compliance with Emerging Issues Task Force (EITF) Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Avista Energy recognizes revenue based on the change in the market value of outstanding derivative commodity sales contracts, net of future servicing costs and reserves, in addition to revenue related to physical and financial contracts that have settled. See Note 2 for a discussion of a change in the accounting for realized gains and losses commencing in the third quarter of 2002.

Intersegment Eliminations
Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for energy commodities and services.

Other Income-Net
Other income-net consisted of the following (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
Interest income	$1,898	$ 8,276	$ 4,111	$12,834
Interest on power and natural gas deferrals	2,407	2,850	5,443	4,471
Net gain (loss) on subsidiary transactions	(601)	1,291	1,702	3,443
Minority interest	90	544	241	846
Other-net	(290)	(1,498)	(783)	(2,912)
Total	$3,504	$11,463	$10,714	$18,682

Regulatory Accounting
The Company prepares its consolidated financial statements in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." The Company prepares its financial statements in accordance with SFAS No. 71 because (i) the Company's rates for regulated services are established by or subject to approval by an independent third-party regulator, (ii) the regulated rates are designed to recover the Company's cost of providing the regulated services and (iii) in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates can be charged to and collected from customers at levels that will recover the Company's costs. SFAS No. 71 requires the Company to reflect the impact of regulatory decisions in its financial statements. SFAS No. 71 requires that certain costs and/or obligations (such as incurred power and natural gas costs not currently recovered through rates, but expected to be recovered in the future) are reflected as deferred charges on the balance sheet. These costs and/or obligations are not reflected in the statement of income until the period during which matching revenues are recognized. If at some point in the future the Company determines that it no longer meets the criteria for continued application of SFAS No. 71 with respect to all or a portion of the Company's regulated operations, the Company could be required to write off its regulatory assets. The Company could also be precluded from the future deferral of costs not recovered through rates at the time such costs were incurred, even if such costs were expected to be recovered in the future.

The Company's primary regulatory assets include power and natural gas deferrals, investment in exchange power, regulatory assets for deferred income taxes, unamortized debt expense, regulatory asset offsetting energy commodity derivative liabilities (see Note 4 for further information), demand side management programs, conservation programs and the provision for postretirement benefits. Those items without a specific line on the Consolidated Balance Sheets are included in other regulatory assets. Other regulatory assets consisted of the following as of June 30, 2002 and December 31, 2001 (dollars in thousands):

	June 30, 2002	December 31, 2001
Regulatory asset offsetting energy commodity derivative liabilities	$53,258	$157,529
Regulatory asset for postretirement benefit obligation	4,964	5,200
Demand side management and conservation programs	26,730	28,813
Other	615	1,218
Total	$85,567	$192,760

Deferred credits include regulatory liabilities created when the Centralia Power Plant was sold and the gain on the general office building sale/leaseback which is being amortized over the life of the lease, and are included on the Consolidated Balance Sheets as Non-Current Liabilities and Deferred Credits - Other deferred credits.

Natural Gas Benchmark Mechanism

Avista Utilities received regulatory approval of its Natural Gas Benchmark Mechanism in 1999 from the Idaho Public Utilities Commission (IPUC), Washington Utilities and Transportation Commission (WUTC) and Oregon Public Utilities Commission (OPUC). The mechanism eliminated the majority of natural gas procurement operations within Avista Utilities and consolidated gas procurement operations under Avista Energy, the Company's non-regulated affiliate. The ownership of the natural gas assets remains with Avista Utilities; however, the assets are managed by Avista Energy through an Agency Agreement. Avista Utilities continues to manage natural gas procurement for its California operations, which currently represents approximately four percent of its total natural gas therm sales.

The Natural Gas Benchmark Mechanism is a performance-based mechanism, providing certain guaranteed benefits to retail customers. The mechanism also provides the Company with the opportunity to improve earnings by allowing Avista Energy to retain a portion of the benefits associated with asset optimization and the efficiencies gained in purchasing natural gas for Avista Utilities. In the first quarter of 2002, the WUTC approved the continuation of the Natural Gas Benchmark Mechanism and related Agency Agreement through March 31, 2003 and the IPUC and OPUC approved the continuation through March 31, 2005.

In accordance with SFAS No. 71, profits recognized by Avista Energy on natural gas sales to Avista Utilities, including unrealized gains on natural gas contracts, are not eliminated in the consolidated financial statements. This is due to the fact that costs incurred by Avista Utilities for natural gas purchases to serve retail customers and for fuel for electric generation are recovered through future retail rates.

Power Cost Deferrals

Avista Utilities defers the recognition in the income statement of certain power supply costs as approved by the WUTC. Deferred power supply costs are recorded as a deferred charge on the balance sheet for future review and the opportunity for recovery through retail rates. The specific power costs deferred include certain differences between actual power supply costs incurred by Avista Utilities and the costs included in base retail rates. This difference in power supply costs primarily results from changes in short-term wholesale market prices, changes in the level of hydroelectric generation and changes in the level of thermal generation (including changes in fuel prices). Total deferred power costs were $116.3 million for Washington customers as of June 30, 2002, a decrease from $140.2 million as of December 31, 2001.

In June 2002, the WUTC issued an order that became effective July 1, 2002 with respect to a general electric rate case filed by Avista Utilities in December 2001. The order provides for an overall rate of return of 9.72 percent and a return on equity of 11.16 percent. The order provided for no incremental rate increase to Avista Utilities' Washington electric customers above the rates currently in effect. Rate increases previously approved by the WUTC totaling 31.2 percent (a 25 percent temporary surcharge approved in September 2001 for the recovery of deferred power costs and a 6.2 percent increase approved in March 2002) have been restructured. The general increase to base retail rates is 19.3 percent (or $45.7 million in annual revenues) and the remaining 11.9 percent represents the continued recovery of deferred power costs over a period currently projected to continue through 2007.

In the June 2002 rate order, the WUTC approved the establishment of an Energy Recovery Mechanism (ERM). The ERM replaces a series of temporary deferral mechanisms that have been in place in Washington since mid-2000. The ERM allows Avista Utilities to increase or decrease electric rates over time to reflect changes in power supply costs. The ERM provides for Avista Utilities to incur the cost of, or receive the benefit from, the first $9 million in annual power supply costs above or below the amount included in base retail rates. As the ERM was implemented on July 1, 2002, the Company's expense or benefit is limited to $4.5 million for 2002. Under the ERM, 90 percent of annual power supply costs exceeding the initial $9 million ($4.5 million for 2002) will be deferred for future rebate or surcharge to Avista Utilities' customers. The remaining 10 percent will be an expense of, or benefit to, the Company.

Avista Utilities has a power cost adjustment (PCA) mechanism in Idaho that allows it to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA mechanism allows for the deferral of 90 percent of the difference between actual net power supply expenses and the authorized level of net power supply expense approved in the last Idaho general rate case. In October 2001, the IPUC issued an order approving a 14.7 percent PCA surcharge for Idaho electric customers and granted an extension of a 4.7 percent PCA surcharge implemented earlier in 2001 that was to expire January 31, 2002. Both PCA surcharges will remain in effect until October 2002. In August 2002, Avista Utilities filed a status report with the

IPUC to request a continuation of the PCA surcharge. If review of the status report and the actual balance of deferred power costs support continuation of the PCA surcharge, the IPUC has indicated that it anticipates the PCA surcharge will be extended for an additional period. Total deferred power costs for Idaho customers were $46.7 million as of June 30, 2002, a decrease from $73.1 million as of December 31, 2001.

Natural Gas Cost Deferrals

Under established regulatory practices in each respective state, Avista Utilities is allowed to adjust its natural gas rates periodically with appropriate regulatory approval to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs and the natural gas costs allowed in rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. Total deferred natural gas costs were $21.3 million as of June 30, 2002, a decrease from $52.7 million as of December 31, 2001.

Reclassifications

Certain prior period amounts were reclassified to conform to current statement format. These reclassifications were made for comparative purposes and have not affected previously reported total net income or common equity.

NOTE 2. NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, “Goodwill and Other Intangible Assets” which applies to acquired intangible assets whether acquired singly, as part of a group, or in a business combination. This statement requires that goodwill not be amortized; however, goodwill for each reporting unit must be evaluated for impairment on at least an annual basis using a two-step approach. The first step used to identify potential impairment compares the estimated fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment evaluation which compares the implied fair value of goodwill to its carrying amount, is performed to determine the amount of the impairment loss, if any. This statement also provides standards for financial statement disclosures of goodwill and other intangible assets and related impairment losses. The Company adopted this statement on January 1, 2002. In April 2002, the Company completed its transitional test of goodwill. Accordingly, the Company determined that goodwill related to Advanced Manufacturing and Development, a subsidiary of Avista Ventures, included in the Other business segment was impaired. This was due to a change in forecasted earnings based on the decline in the performance of the business. The fair value of the reporting unit was determined using the present value of projected future cash flows. The Company has recorded an impairment of $4.1 million, net of taxes, as a cumulative effect of accounting change in the Consolidated Statement of Income.

Goodwill amortization was $0.5 million, net of taxes, for the three months ended June 30, 2001. Net income and basic and diluted earnings per common share would have been $23.2 million and $0.48, respectively, excluding goodwill amortization for the three months ended June 30, 2001. Goodwill amortization was $1.0 million, net of taxes, for the six months ended June 30, 2001. Net income and basic and diluted earnings per common share would have been $53.1 million and $1.10, respectively, excluding goodwill amortization for the six months ended June 30, 2001.

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations” which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires the recording of the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the associated costs of the asset retirement obligation will be capitalized as part of the carrying amount of the related long-lived asset. The liability will be accreted to its present value each period and the related capitalized costs will be depreciated over the useful life of the related asset. Upon retirement of the asset, the Company will either settle the retirement obligation for its recorded amount or incur a gain or loss. The Company will be required to adopt this statement on January 1, 2003. The Company is in the process of determining the impact this statement will have on the Company’s financial condition and results of operations.

In June 2002, the EITF reached a partial consensus on Issue 02-3 regarding the accounting for contracts involved in energy trading and risk management activities. The partial consensus will require that all mark-to-market gains and losses arising from energy trading contracts (whether realized or unrealized) accounted for under EITF Issue No. 98-10 “Accounting for Contracts Involved in Energy Trading and Risk Management Activities” be presented on a net basis in the income statement beginning in the first interim or annual period ending after July 15, 2002. Reclassification of all historical comparable periods will be required. The Company currently presents unrealized

gains and losses on energy trading contracts on a net basis. However, realized contracts are presented on a gross basis for both revenue and resource costs. The implementation of this EITF Issue, beginning in the third quarter of 2002, will result in reduced operating revenues and resource costs with no impact on the Company's net income or financial condition. The partial consensus also requires certain energy trading disclosures in the footnotes to the financial statements beginning in annual periods ending after July 15, 2002. The disclosures will be similar to disclosures currently presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

NOTE 3. DISCONTINUED OPERATIONS

In September 2001, the Company reached a decision that it would dispose of substantially all of the assets of Avista Communications. In October 2001, minority shareholders of Avista Communications acquired ownership of its Montana and Wyoming operations as well as its dial-up internet access operations in Spokane, Washington and Coeur d'Alene, Idaho. In December 2001, Avista Communications completed the sale of the assets and customer accounts of its Yakima and Bellingham, Washington operations to Advanced Telcom Group, Inc. In April 2002, Avista Communications completed the transfer of voice and integrated services customer accounts in Spokane, Washington and Coeur d'Alene, Idaho to certain subsidiaries of XO Communications, Inc. In August 2002, the Company has entered into an agreement to dispose of substantially all of the remaining assets of Avista Communications. The divestiture is expected to be completed by the end of 2002.

Revenues for Avista Communications were $1.1 million and $3.1 million for the three months ended June 30, 2002 and 2001, respectively. Revenues for Avista Communications were $3.1 million and $5.5 million for the six months ended June 30, 2002 and 2001, respectively. Total assets of $21.6 million as of June 30, 2002 were comprised of $16.6 million of deferred tax assets, $3.3 million of fixed assets and $1.7 million of current assets including accounts receivable, cash, inventory and prepaid expenses.

NOTE 4. UTILITY ENERGY COMMODITY DERIVATIVE ASSETS AND LIABILITIES

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recording of all derivatives as either assets or liabilities in the balance sheet measured at estimated fair value and the recognition of the unrealized gains and losses. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for derivatives depends on the intended use of the derivatives and the resulting designation.

Avista Utilities buys and sells energy under forward contracts that are considered derivatives. Under forward contracts, Avista Utilities commits to purchase or sell a specified amount of capacity and energy. These contracts are entered into to manage Avista Utilities' loads and resources as discussed in Note 5. In conjunction with the issuance of SFAS No. 133, the WUTC and the IPUC issued accounting orders requiring Avista Utilities to offset any derivative assets or liabilities with a regulatory asset or liability. As a result, unrealized gains or losses for Avista Utilities are not recognized in the Consolidated Statements of Income and Comprehensive Income. Avista Energy accounts for derivative commodity instruments using the mark-to-market method of accounting. See Note 5 for further details.

Avista Utilities records derivative commodity assets and liabilities for over-the-counter and exchange-traded derivative instruments as well as certain long-term contracts. Avista Utilities believes the majority of its long-term purchases and sales contracts for both capacity and energy qualify as normal purchases and sales under SFAS No. 133 and are not required to be recorded as derivative commodity assets and liabilities. Avista Utilities does not record derivative commodity assets and liabilities for short-term contracts subject to booking out, as it has concluded that these contracts qualify for the normal purchases and sales exception. As of June 30, 2002, the utility derivative commodity asset balance was $19.1 million, the derivative commodity liability balance was $72.4 million and the offsetting net regulatory asset was $53.3 million. The derivative commodity asset balance is included in Deferred Charges — Utility energy commodity derivative assets, the derivative commodity liability balance is included in Non-Current Liabilities and Deferred Credits — Utility energy commodity derivative liabilities, and the offsetting net regulatory asset is included in Deferred Charges — Other regulatory assets on the Consolidated Balance Sheet.

Interpretations that may be issued by the Derivatives Implementation Group, a task force created to assist the FASB in answering questions that companies have in implementing SFAS No. 133, may change the conclusions that the

Company has reached regarding accounting for energy contracts. As a result, the accounting treatment and financial statement impact could change in future periods.

NOTE 5. ENERGY COMMODITY TRADING

The Company's energy-related businesses are exposed to risks relating to, but not limited to, changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, Avista Utilities utilizes electric, natural gas and related derivative commodity instruments, such as forwards, futures, swaps and options, and Avista Energy engages in the trading of such instruments. Avista Utilities and Avista Energy have policies and procedures to manage both quantitative and qualitative risks inherent in these activities. The Company has a comprehensive Risk Management Committee, separate from the units that create such risk exposure and that is overseen by the Audit Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures.

Avista Utilities
Avista Utilities sells and purchases electric capacity and energy at wholesale to and from utilities and other entities under long-term contracts having terms of more than one year. In addition, Avista Utilities engages in an ongoing process of resource optimization which involves short-term purchases and sales in the wholesale market in pursuit of an economic selection of resources to serve retail and wholesale loads. Avista Utilities makes continuing projections of (1) future retail and wholesale loads based on, among other things, forward estimates of factors such as customer usage and weather as well as historical data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities purchases and sells energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements and sells any surplus at the best available price. This process includes hedging transactions.

Avista Utilities manages the impact of fluctuations in electric energy prices by establishing volume limits for the imbalance between projected loads and resources and through the use of derivative commodity instruments for hedging purposes. Any imbalance is required to remain within limits, or management action or decisions are triggered to address larger imbalance situations and manage the exposure to market risk. Avista Energy is responsible for the daily management of natural gas supplies to meet the requirements of Avista Utilities' customers in the states of Washington, Idaho and Oregon. In addition, Avista Utilities utilizes derivative commodity instruments for hedging price risk associated with natural gas. The Risk Management Committee has limited the types of commodity instruments Avista Utilities may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. The market values of natural gas derivative commodity instruments held by Avista Utilities as of June 30, 2002 and December 31, 2001, were a $51.7 million net liability and a $133.2 million net liability, respectively. The significant liability position as of December 31, 2001 was a result of forward commitments to purchase natural gas entered into during 2000 and the first part of 2001 at prices in excess of the market price for natural gas as of December 31, 2001. The decrease from December 31, 2001 to June 30, 2002 reflects the settlement of contracts during the period as well as an increase in the forward price of natural gas. Realized losses are reflected as adjustments to deferred natural gas costs or the ERM.

Avista Energy
Avista Energy purchases natural gas and electricity from producers and other trading companies, and its customers include commercial and industrial end-users, electric utilities, natural gas distribution companies, and other trading companies. Avista Energy's marketing and energy risk management services are provided through the use of a variety of derivative commodity contracts to purchase or supply natural gas and electric energy at specified delivery points and at specified future dates. Avista Energy trades natural gas and electricity derivative commodity instruments on national exchanges and through other unregulated exchanges and brokers from whom these commodity derivatives are available, and therefore experiences net open positions in terms of price, volume, and specified delivery point. The open positions expose Avista Energy to the risk that fluctuating market prices may adversely impact its financial condition or results of operations. However, the net open position is actively managed with strict policies designed to limit the exposure to market risk and requires daily reporting to management of potential financial exposure.

Avista Energy measures the risk in its power and natural gas portfolio daily utilizing a Value-at-Risk (VAR) model, monitoring its risk in comparison to established thresholds. VAR measures the expected portfolio loss under

hypothetical adverse price movements, over a given time interval within a given confidence level. Avista Energy also measures its open positions in terms of volumes at each delivery location for each forward time period. The extent of open positions is included in the risk management policy and is measured with stress tests and VAR modeling.

Derivative commodity instruments sold and purchased by Avista Energy include: forward contracts, which involve physical delivery of an energy commodity; futures contracts, which involve the buying or selling of natural gas or electricity at a fixed price; over-the-counter swap agreements, which require Avista Energy to receive or make payments based on the difference between a specified price and the actual price of the underlying commodity; and options, which mitigate price risk by providing for the right, but not the requirement, to buy or sell energy-related commodities at a fixed price. Foreign currency risks are primarily related to Canadian exchange rates and are managed using standard instruments available in the foreign currency markets.

Avista Energy's trading activities are subject to mark-to-market accounting, under which changes in the market value of outstanding electric, natural gas and related derivative commodity instruments are recognized as unrealized gains or losses in the period of change. Market prices are utilized in determining the value of the electric, natural gas and related derivative commodity instruments. For longer-term positions and certain short-term positions for which market prices are not available, a model to estimate forward price curves is utilized. Gains and losses on electric, natural gas and related derivative commodity instruments utilized for trading are recognized in income on a current basis (the mark-to-market method) and are included in the Consolidated Statements of Income in operating revenues or resource costs, as appropriate, and in the Consolidated Balance Sheets as current or non-current energy commodity assets or liabilities. Contracts in a receivable position, as well as the options held, are reported as assets. Similarly, contracts in a payable position, as well as options written, are reported as liabilities. Net cash flows are recognized in the period of settlement.

Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or a fixed amount and is entitled to receive the commodity or a fixed amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or a fixed amount and is obligated to deliver the commodity or pay a fixed amount or (iii) as "index price payor," is obligated to pay an indexed price or an indexed amount and is entitled to receive the commodity or a variable amount or (iv) as "index price receiver," is entitled to receive an indexed price or amount and is obligated to deliver the commodity or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding as of June 30, 2002 are set forth below (in thousands of mmBTUs and MWhs):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years	Index Price Payor	Index Price Receiver	Maximum Terms in Years
Energy commodities (volumes)						
Natural gas	113,559	108,247	8	876,502	904,575	3
Electric	90,841	88,005	15	320	21	3

Contract or notional amounts reflect the volume of transactions, but do not necessarily represent the dollar amounts exchanged by the parties to the derivative commodity instruments. Accordingly, contract or notional amounts do not accurately measure Avista Energy's exposure to market or credit risks. The maximum terms in years detailed above are not indicative of likely future cash flows as these positions may be offset in the markets at any time.

Estimated Fair Value The estimated fair value of Avista Energy's derivative commodity instruments outstanding as of June 30, 2002, and the average estimated fair value of those instruments held during the six months ended June 30, 2002, are set forth below (dollars in thousands):

	Estimated Fair Value as of June 30, 2002				Average Estimated Fair Value for the six months ended June 30, 2002			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	$231,010	$ 54,673	$204,261	$ 42,413	$161,601	$ 63,664	$139,633	$ 42,506
Electric	232,450	276,520	162,833	234,121	257,698	293,571	179,196	245,574
Total	$463,460	$331,193	$367,094	$276,534	$419,299	$357,235	$318,829	$288,080

The weighted average term of Avista Energy's natural gas derivative commodity instruments as of June 30, 2002 was approximately 5 months. The weighted average term of Avista Energy's electric derivative commodity instruments as of June 30, 2002 was approximately 6 months. The change in the estimated fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk for the six months ended June 30, 2002 was an unrealized loss of $35.7 million and is included in the Consolidated Statements of Income in operating revenues. The change in the fair value position for the six months ended June 30, 2001 was an unrealized gain of $2.9 million.

NOTE 6. FINANCINGS

Accounts Receivable Sale

In 1997, Avista Receivables Corp. (ARC), formerly known as WWP Receivables Corp., was formed as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. On May 29, 2002, ARC, the Company and a third-party financial institution entered into a three-year agreement whereby ARC can sell without recourse, on a revolving basis, up to $100.0 million of those receivables. ARC is obligated to pay fees that approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. As of June 30, 2002 and December 31, 2001, $57.0 million and $75.0 million, respectively, in accounts receivables were sold.

Short-term Borrowings — Avista Corp. Committed Line of Credit

On May 21, 2002, the Company entered into a committed line of credit with various banks in the total amount of $225.0 million. The committed line of credit expires on May 20, 2003 and replaces the $220.0 million committed line of credit that expired on May 29, 2002. As of June 30, 2002, the Company had borrowed $55.0 million under this committed line of credit. Under this committed line of credit, the Company may have up to $50.0 million in letters of credit outstanding. As of June 30, 2002, there were $15.1 million of letters of credit outstanding. The Company's obligation under the committed line of credit is secured with First Mortgage Bonds in the amount of the commitment.

The committed line of credit agreement contains customary covenants and default provisions, including covenants not to permit the ratio of "consolidated total debt" to "consolidated total capitalization" of Avista Corp. to be, at the end of any fiscal quarter, greater than 65 percent. As of June 30, 2002, the ratio was in compliance with this covenant at 55.3 percent. The committed line of credit also has a covenant requiring the ratio of "earnings before interest, taxes, depreciation and amortization" to "interest expense" of Avista Utilities for the three-fiscal quarter period ending June 30, 2002 to be greater than 1.6 to 1. As of June 30, 2002, the ratio was in compliance with this covenant at 2.06 to 1.

Avista Energy Credit Agreement

On June 28, 2002 Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, renewed their credit agreement with a group of banks in the aggregate amount of $110.0 million, expiring June 30, 2003. This credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the lenders' sole discretion. This agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. This facility is guaranteed by Avista Capital and secured by Avista Energy's assets. The maximum amount of credit extended by the banks for the issuance of letters of credit is the subscribed amount of the facility less the amount of outstanding cash advances, if any. The maximum amount of credit extended by the banks for cash advances is $30 million. No cash advances were outstanding as of June 30, 2002. Letters of credit in the aggregate amount of $30.4 million were outstanding as of June 30, 2002.

The Avista Energy credit agreement contains customary covenants and default provisions, including covenants to maintain "minimum net working capital" and "minimum net worth", as well as a covenant limiting the amount of indebtedness which the co-borrowers may incur. Avista Energy was in compliance with the covenants of its credit agreement as of June 30, 2002. Covenants in Avista Energy's credit agreement also restrict the amount of cash dividends that can be distributed to Avista Capital and ultimately to Avista Corp. During the six months ended June 30, 2002, Avista Energy paid $81.1 million in dividends to Avista Capital. Avista Capital used the cash proceeds to pay cash dividends and repay debt to Avista Corp.

Avista Corp. Interest Rate Swap Agreement

In order to lower interest payments during a period of declining interest rates, Avista Corp. has entered into an interest rate swap agreement effective July 17, 2002 and terminating on June 1, 2008. This interest rate swap agreement effectively changes the interest rate on $25 million of Unsecured Senior Notes from a fixed rate of 9.75 percent to a variable rate based on LIBOR. This interest rate swap agreement has been designated as a fair value hedge, which hedges the variability of the fair value of the long-term debt attributable to interest rate risk. This interest rate swap meets the conditions of a highly effective fair value hedge in accordance with SFAS No. 133. As such, this hedge will be accounted for by recording the fair value of the interest rate swap on the balance sheet as either an asset or liability with a corresponding offset recorded to mark the Unsecured Senior Notes to fair value.

Subsidiary Interest Rate Swap Agreement

Rathdrum Power, LLC (Rathdrum), an unconsolidated entity that is 49 percent owned by Avista Power, operates a 270 MW natural gas-fired combustion turbine plant in northern Idaho. As of June 30, 2002, Rathdrum had $119.4 million of debt outstanding that is not included in the consolidated financial statements of the Company. There is no recourse to the Company with respect to this debt. Rathdrum has entered into two interest rate swap agreements, maturing in 2006, to manage the risk that changes in interest rates may affect the amount of future interest payments. Rathdrum agreed to pay fixed rates of interest with the differential paid or received under the interest rate swap agreements recognized as an adjustment to interest expense. These interest rate swap agreements are considered hedges against fluctuations in future cash flows associated with changes in interest rates in accordance with SFAS No. 133. The fair value of the interest rate swap agreements was determined by reference to market values obtained from various third party sources. As Avista Power's 49 percent ownership interest in Rathdrum is accounted for under the equity method of accounting, the effect on the financial statements for the three and six months ended June 30, 2002 is a $0.3 million unrealized loss recorded as other comprehensive loss and a corresponding decrease in non-utility property and investments in the Consolidated Balance Sheet.

NOTE 7. EARNINGS PER COMMON SHARE

The following table presents the computation of basic and diluted earnings per common share (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Numerator:				
Income from continuing operations	$ 9,331	$25,980	$24,851	$58,101
Income (loss) from discontinued operations	1,014	(3,255)	742	(5,973)
Net income before cumulative effect of accounting change	10,345	22,725	25,593	52,128
Cumulative effect of accounting change	—	—	(4,148)	—
Net income	10,345	22,725	21,445	52,128
Deduct: Preferred stock dividend requirements	608	608	1,216	1,216
Income available for common stock	$ 9,737	$22,117	$20,229	$50,912
Denominator:				
Weighted-average number of common shares outstanding-basic	47,774	47,372	47,723	47,305
Effect of dilutive securities:				
Restricted stock	2	6	3	6
Stock options	81	114	83	41
Weighted-average number of common shares outstanding-diluted	47,857	47,492	47,809	47,352
Earnings per common share, basic and diluted:				
Earnings per common share from continuing operations	$ 0.18	$ 0.54	$ 0.49	$ 1.21
Earnings (loss) per common share from discontinued operations	0.02	(0.07)	0.02	(0.13)
Earnings per common share before cumulative effect of accounting change	0.20	0.47	0.51	1.08
Loss per common share from cumulative effect of accounting change	—	—	(0.09)	—
Total earnings per common share, basic and diluted	$ 0.20	$ 0.47	$ 0.42	$ 1.08

NOTE 8. INFORMATION AND TECHNOLOGY SEGMENT INFORMATION

The Information and Technology line of business includes the results of Avista Advantage and Avista Labs (including its 70 percent equity interest in H2fuel, LLC). Additional financial information for each of these separate companies is provided as follows for the three and six months ended June 30, 2002 and 2001 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Avista Advantage				
Operating revenues	$ 3,964	$ 2,994	$ 7,763	$ 5,865
Loss from operations (pre-tax)	$(1,894)	$(4,492)	$(4,308)	$(8,606)
Net loss	$(1,354)	$(2,988)	$(2,646)	$(5,855)
Avista Labs				
Operating revenues	$ 66	$ 148	$ 216	$ 252
Loss from operations (pre-tax)	$(4,166)	$(4,203)	$(6,873)	$(7,296)
Net loss	$(2,961)	$(2,739)	$(4,417)	$(4,858)

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Company believes, based on the information presently known, that the ultimate liability for the matters discussed in this note, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the consolidated financial condition of the Company, but could be material to results of operations or cash flows for a particular quarter or other reporting period. No assurance can be given, however, as to the ultimate outcome with respect to any particular issue.

Federal Energy Regulatory Commission (FERC) Inquiry

In February 2002, the FERC issued an order commencing a fact-finding investigation of potential manipulation of electric and natural gas prices in the California energy markets by multiple companies. On May 8, 2002, the FERC requested data and information with respect to certain trading strategies that companies may have engaged in. Specifically, the requests inquired as to whether or not the Company engaged in certain trading strategies that were the same or similar to those used by Enron Corporation (Enron) and its affiliates. These requests were made to all sellers of wholesale electricity and/or ancillary services in the Western Interconnection during 2000 and 2001, including Avista Corp. and Avista Energy. On May 22, 2002, Avista Corp. and Avista Energy filed their responses to this request indicating that they had engaged in sound business practices in accordance with established market rules.

On June 4, 2002, the FERC issued an additional order to Avista Corp. and three other companies requiring these companies to show cause within ten days as to why their authority to charge market-based rates should not be revoked. In this order, the FERC alleged that Avista Corp. failed to respond fully and accurately to the data request made on May 8, 2002. On June 14, 2002, Avista Corp. provided additional information in response to the June 4, 2002 FERC order to establish that its initial response was appropriate and adequate, and reiterated that it had not engaged in the trading strategies that were the subject of the May 8, 2002 FERC request. The FERC has not issued any further orders with respect to this matter or provided any further correspondence to Avista Corp. The Company does not have any outstanding requests from the FERC for information with respect to this matter. The FERC is expected to issue an interim report to the United States Congress in August 2002 with respect to their investigation and Avista Utilities, among other companies, may be mentioned in the report.

U.S. Commodity Futures Trading Commission (CFTC) Subpoena

On June 17, 2002, the CFTC issued a subpoena to Avista Corp. requesting, among other things, documents and records related to natural gas and electricity trading involving “round-trip” trading practices, also known as “wash” trading or “sell/buyback” trading, that may have occurred since January 2000. In a previous response to the FERC, Avista Corp. indicated that it did not and does not engage in “wash” or “round-trip” trading. For further information see “Federal Energy Regulatory Commission (FERC) Inquiry” above. The CFTC subpoena applies to both Avista Corp. and Avista Energy. The Company is cooperating with the CFTC and is providing the information requested by the CFTC.

Derivative Securities Litigation

On June 13, 2002, Gail West, derivatively on behalf of nominal defendant Avista Corp., filed a lawsuit in the Superior Court of Washington, Spokane County, against certain past and present members of the board of directors of Avista Corp., as defendants, and Avista Corp., as nominal defendant. The complaint alleges that the Company's board of directors breached their fiduciary duties by causing the Company to engage in improper energy trading transactions and then attempting to cover them up when questioned by the FERC. The complaint alleges damages associated with the FERC investigation, potential loss of the electricity trading license of Avista Utilities, and a loss of market credibility. Avista Corp. believes the lawsuit is without merit and intends to ask the court to dismiss the complaint. For further information see "Federal Energy Regulatory Commission (FERC) Inquiry" above.

California Energy Markets

In April 2002, several subsidiaries of Reliant Energy, Inc. (Reliant) and Duke Energy Corporation (Duke) filed cross-complaints against Avista Energy and numerous other participants in the California energy markets. The cross-complaints are for indemnification for any liability which may arise from original complaints filed against Reliant and Duke with respect to charges of unlawful and unfair business practices in the California energy markets under California law. Avista Energy has filed motions to dismiss the cross-complaints.

In March 2002, the Attorney General of the State of California (California AG) filed a complaint with the FERC against certain specific companies (not including Avista Corp. or its subsidiaries) and "all other public utility sellers" in California. The complaint alleges that sellers with market-based rates have violated their tariffs by not filing with the FERC transaction-specific information about all of their sales and purchases at market-based rates. As a result, all past sales should be subject to refund if found to be above just and reasonable levels. In May 2002, the FERC issued an order denying the claim to issue refunds. In July 2002, the California AG requested a rehearing on the FERC order.

In April 2002, the California AG provided notice of intent to file a complaint against Avista Energy in the California State Court on behalf of the State of California. Complaints have been filed against approximately a dozen other companies; many of which have filed motions to dismiss based upon federal preemption and primary jurisdiction arguments. The threatened complaint alleges that Avista Energy failed to file rates and changes to rates charged for each sale of wholesale electricity in California markets with the FERC as required by Federal Power Act regulations and FERC orders. The threatened complaint asserts that each violation of law, regulation and order is an unlawful and unfair business practice under the California Business and Professions Code, subject to a penalty of $2,500 per violation. The threatened complaint further alleges that certain rates charged for wholesale electricity sold in California exceeded a just and reasonable rate. As such, the threatened complaint alleges that these rates violate the Federal Power Act and are also a violation under the California Business and Professions Code, subject to penalty. A significant portion of the transactions involved in this threatened complaint are also the subject of FERC proceedings to examine potential refunds and in most cases are transactions for which Avista Energy is still owed payment. As of the filing date of this report, the California AG has not filed the threatened complaint against Avista Energy.

For further information with respect to California energy markets see "Western Power Market Issues" in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Enron Corporation

On December 2, 2001, Enron and certain of its affiliates filed for protection under chapter 11 of the United States Bankruptcy Code. The bankruptcy filing constituted an event of default under contracts between Avista Corp. and Avista Energy, respectively, and certain Enron affiliates, namely, Enron Power Marketing, Inc. (EPMI), Enron North America Company (ENA) and Enron Canada Corp. (ECC), that are guaranteed by Enron. As a result, Avista Corp. and Avista Energy terminated all but one of these contracts and suspended trading activities with most Enron affiliates. Short-term balance-of-the-month deals with EPMI are still being transacted through Avista Energy on a prepaid basis.

Both Avista Corp. and Avista Energy engage in physical and financial transactions for the purchase and sale of electric energy and capacity and natural gas. Both companies had done considerable business and had short-term and long-term contracts with Enron affiliates. Avista Corp. has one three-year purchase with remaining deliveries

scheduled from 2004 to 2006 with EPMI. Avista Energy's long-term contracts with Enron affiliates were terminated entirely.

As of June 30, 2002, Avista Corp. and Avista Energy had net accounts receivable of $3.1 million and $14.1 million, respectively, from Enron affiliates. Avista Corp.'s and Avista Energy's contracts with each Enron affiliate provide that, upon termination, the net settlement of accounts receivable and accounts payable with such entity will be netted against the net mark-to-market value of the terminated forward contracts with such entity. It is estimated that, for each of Avista Corp. and Avista Energy, netting the mark-to-market liability against the defaulted net accounts receivable will result in no significant loss due to non-collection from the Enron affiliates. The Company further estimates that the net mark-to-market liability to Enron affiliates with respect to the terminated forward contracts of Avista Corp. and Avista Energy, taken together, exceeds total net accounts receivable from these entities by less than $30 million. Any claims by the Enron entities for amounts that Avista Corp. and Avista Energy might owe with respect to the terminated forward contracts would be subject to any defenses and counterclaims which Avista Corp. and Avista Energy may have. Any residual obligation by Avista Corp. or Avista Energy for termination payments is not expected to have a material impact on the Company's financial condition or results of operations.

The estimates of the mark-to-market values of terminated forward contracts are based on available broker quotes for the respective periods, and on assumptions as to future market prices and other information. While Avista Corp. and Avista Energy believe these assumptions are reasonable, they are subject to change and ultimately could be challenged by the Enron entities or their bankruptcy trustees. The mark-to-market value of terminated contracts has not been firmly established and could result in undercollection that is not expected to be material to the financial condition or results of operations of either Avista Corp. or Avista Energy.

National Energy Production Corporation (NEPCO), a wholly owned subsidiary of Enron, was the contractor responsible for the engineering, procurement and construction of the Coyote Springs 2 project (a 280 MW natural gas-fired power plant near Boardman, Oregon). Avista Corp. owns 50 percent of the Coyote Springs 2 project. NEPCO was not included in the initial bankruptcy filings made by Enron and its affiliates in December 2001 (NEPCO subsequently filed for bankruptcy on May 20, 2002). However, Enron guaranteed NEPCO's obligations, and the bankruptcy filing by Enron was an event of default under the Coyote Springs 2 construction contract. As a result of this default and other defaults under the contract, NEPCO was removed as contractor for the project on April 15, 2002. Black and Veatch Corporation replaced NEPCO as contractor for the project.

Avista Corp. is party to a power exchange arrangement which expires in 2016. Under this power exchange arrangement, EPMI purchases capacity from Avista Corp. and sells capacity to Spokane Energy LLC (Spokane Energy), a subsidiary of Avista Corp., formed in 1998 solely for the purpose of monetizing a long-term capacity contract between Portland General Electric (PGE) and Avista Corp. Spokane Energy sells the related capacity to PGE. Subsequently, PGE became a subsidiary of Enron that has not been included in the bankruptcy filing to date. This power exchange arrangement was originally established for the purpose of monetizing a $145 million long-term capacity contract between Avista Corp. and PGE. EPMI assisted in setting up the monetization structure and acts as an intermediary to abide by certain regulatory restrictions that currently prevent Spokane Energy and Avista Corp. from dealing directly with each other. The transaction is structured such that Spokane Energy bears full recourse risk for a monetization loan (balance of $128.5 million as of June 30, 2002) that matures in January 2015 with no recourse to Avista Corp. related to the loan. EPMI is obligated to pay approximately $150,000 per month to Avista Corp. for its capacity purchase. EPMI defaulted on two payments to Avista Corp. prior to filing for bankruptcy. As a result, in December 2001, Avista Corp. and EPMI entered an agreement that allows Avista Corp. to continue receiving the monthly payments from EPMI while Avista Corp. evaluates alternatives with respect to EPMI's involvement in the transaction going forward. Since December 2001, Avista Corp. has received the monthly payments.

Securities and Exchange Commission Inquiry

In October 2000, the staff of the Securities and Exchange Commission requested certain information and documentation from the Company regarding Avista Utilities' wholesale trading activities and its risk management policies and procedures with respect thereto. The Company complied with this request. During the three months ended March 31, 2002, the Company furnished additional information with respect to current risk management practices. On May 7, 2002, the staff advised the Company that it had concluded its informal inquiry and would not be recommending any action at this time.

Colorado River Commission of Nevada (CRCN) Complaint

On July 9, 2002, the CRCN filed a complaint in the United States District Court for the District of Nevada against Pioneer Companies, Inc. (Pioneer), and numerous other defendants, including Avista Energy. CRCN is an agency of the State of Nevada, authorized to hold and administer rights to electric power generated on the Colorado River and from other sources. CRCN claims they purchased power as a purported agent for Pioneer from numerous vendors, including Avista Energy. CRCN alleges that Pioneer has disavowed its contractual liability to pay for power due to be delivered for its benefit in the future, pursuant to transactions entered into for Pioneer's benefit by CRCN. CRCN alleges that it has funds available of approximately $35 million, resulting from the sale of options and energy originally secured by CRCN for the benefit of Pioneer, but believes the potential collective claims of all electricity vendors may exceed $100 million. Accordingly, CRCN seeks to interplead into court the $35 million and asks the court to assess the competing claims of vendors to such funds. CRCN further requests that Pioneer be ordered to pay vendors amounts owed for transactions between CRCN (as Pioneer's agent) and vendors, and that such contracts be specifically enforced. Finally, CRCN seeks to be indemnified against the future claims of vendors. The amount of Avista Energy's potential liability is currently estimated to be less than $4 million.

State of Washington Business and Occupation Tax

The State of Washington's Business and Occupation Tax applies to gross revenue from business activities. For most types of business, the tax applies to the gross sales price received for goods or services. For certain types of financial trading activities, including the sale of stocks, bonds and other securities, the tax applies to the realized gain from the sale of the financial asset. On an audit for the period from 1997 through June 2000, the Department of Revenue (DOR) took the position that approximately 20 percent of the energy futures trades of Avista Energy should not be treated as securities trades, but rather as energy deliveries. As a result, the DOR applied tax against the gross sales price of the energy contracts at issue. Avista Energy subsequently received an assessment of $14.5 million for tax and interest related to the disputed issue. It is the position of Avista Energy that all of its futures trading activities are substantively the same and there is no proper basis for the distinction made by the DOR. An administrative appeal was filed with the DOR and a hearing was held on September 25, 2001. Avista Energy has not received a determination related to this issue at this point. Avista Energy is prepared to seek relief in the Washington courts if a satisfactory determination is not received.

Sale of Certain Pentzer Corporation Subsidiaries

On February 26, 2001, IDX Corporation, formerly known as Store Fixtures Group, Inc., filed a complaint against Pentzer in the United States District Court for the District of Massachusetts, alleging breach of contract and negligent misrepresentation relating to a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on August 31, 1999. Plaintiff alleges that Pentzer breached various representations and warranties concerning financial statements and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiff claims damages in the approximate amount of $7.8 million plus interest and attorney's fees. The Court approved the parties' joint motion to extend the discovery dates. Mediation commenced during June 2002 in conjunction with the Creative Solutions Group, Inc. case discussed below and has not been successful to date.

On August 9, 2002, an agreement in principle was reached to settle a lawsuit filed by Creative Solutions Group, Inc. (Creative Solutions) against Pentzer in April 2000. The agreement provides for a settlement in the amount of $9.25 million. In April 2000, Creative Solutions and Form House Holdings, Inc. filed a complaint against Pentzer in the United States District Court for the District of Massachusetts, alleging misrepresentations and breach of representations and warranties made under a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on March 31, 1999. In November 2001, plaintiffs filed a motion to amend their complaint, which was granted. The amended pleading, among other things, removed Form House Holdings, Inc. as a plaintiff; however, plaintiff Creative Solutions continued to allege that Pentzer made misrepresentations and breached various representations and warranties concerning financial statements, cost of goods sold and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiff alleged compensatory damages in the approximate amount of $31 million, plus exemplary damages, interest and attorney's fees.

Montana Hydroelectric Security Act Initiative

In January 2002, the Montana Secretary of State certified that it had approved the form of a proposed initiative to create a public agency to own and operate all hydroelectric generating facilities located within the state of Montana. The initiative would allow for the new public agency to acquire through a negotiated purchase or an acquisition at fair market value through a condemnation proceeding all hydroelectric facilities larger than 5 MW that are in the "public interest" to own and operate for the benefit of the people of Montana. Funds for the payment of the purchase price would be obtained through the issuance of revenue bonds. The output from the hydroelectric facilities could be sold at wholesale or retail, with preferences for non-industrial customers and customers with demand of less than 1 average megawatt (aMW). The Company's largest generation plant, the Noxon Rapids Hydroelectric Generating Station (Noxon Rapids) (550 MW), is located in Montana on the Clark Fork River. In February 2000, Avista Utilities received a new 45-year operating license from the FERC under the Federal Power Act that applies jointly to the Cabinet Gorge (located in Idaho) and Noxon Rapids projects.

The proposal is being presented as a ballot initiative, which allows for the enactment of law through public vote without legislative approval. The initiative was reviewed and approved by the following parties in the state of Montana: the Legislative Service Division, the Attorney General and the Secretary of State. The supporters of the initiative gathered the required signatures and the initiative is scheduled to be presented to the public in the November 2002 General Election. The initiative will require a majority vote to become law.

If this proposed initiative were passed into law and Noxon Rapids were to be acquired from the Company; it could have significant negative ramifications for the Company. As such, the Company is opposing this initiative and intends to legally defend itself against the acquisition of Noxon Rapids. In July 2002, the Company joined several other parties in filing a suit in Montana District Court claiming this initiative violates the Constitution of the state of Montana and should not be placed on the ballot in the November 2002 General Election. Arguments with respect to this suit are currently scheduled to be presented in the Montana District Court in September 2002.

The Company also believes that the initiative may be pre-empted by federal law because, among other things, the Company operates Noxon Rapids under a license issued by the FERC under the Federal Power Act.

If the current legal challenge is not successful, the Company is unable to predict whether or not the initiative will pass in the November 2002 election. Further, the Company is not able to predict whether any subsequent legal challenges would be successful.

Hamilton Street Bridge Site

A portion of the Hamilton Street Bridge Site in Spokane, Washington (including a former coal gasification plant site that operated for approximately 60 years until 1948) was acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. On January 15, 1999, the Company received notice from the State of Washington's Department of Ecology (DOE) that it had been designated as a potentially liable party (PLP) with respect to any hazardous substances located on this site, stemming from the Company's past ownership of the former gas plant site. In its notice, the DOE stated that it intended to complete an on-going remedial investigation of this site, complete a feasibility study to determine the most effective means of halting or controlling future releases of substances from the site, and to implement appropriate remedial measures. The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. In the spring of 1999, the DOE named two other parties as additional PLPs.

An Agreed Order was signed by the DOE, the Company and another PLP, Burlington Northern & Santa Fe Railway Co. (BNSF) on March 13, 2000 that provided for the completion of a remedial investigation and a feasibility study. The work to be performed under the Agreed Order includes three major technical parts: completion of the remedial investigation; performance of a focused feasibility study; and implementation of an interim groundwater monitoring plan. During the second quarter of 2000, the Company received comments from the DOE on its initial remedial investigation, then submitted another draft of the remedial investigation, which was accepted as final by the DOE. After responding to comments from the DOE, the feasibility study was accepted by the DOE during the fourth quarter of 2000. After receiving input from the Company and the other PLPs, the final Cleanup Action Plan (CAP) was issued by the DOE on August 10, 2001. On September 10, 2001, the DOE issued an initial draft Consent Decree for the PLPs to review. During the first quarter of 2002, the Company and BNSF signed a cost sharing

agreement. The Company, BNSF and the DOE have signed the Consent Decree to implement the CAP. The third PLP has indicated they will not sign the Consent Decree. It is expected that work on the CAP will begin during the second half of 2002.

Spokane River

In March 2001, the DOE informed Avista Development, a subsidiary of Avista Capital, of a health advisory concerning PCBs found in fish caught in a portion of the Spokane River. In June 2001, Avista Development received official notice that it has been designated as a PLP with respect to contaminated sites on the Spokane River. The DOE discovered PCBs in fish and sediments in the 1970s and 1980s. In the 1990s, the DOE performed subsequent sampling of the river and identified potential sources of the PCBs, including the Spokane Industrial Park (SIP) and a number of other entities in the area. The SIP, renamed Pentzer Development Corporation (Pentzer Development) in 1990, operated a wastewater treatment plant at the site until it was closed in December 1993. The SIP's treatment plant discharged to the Spokane River under the terms of a National Pollutant Discharge Elimination System permit issued by the DOE. Pentzer Development sold the property in 1996 and merged with Avista Development in 1998. Avista Development filed a response to this notice in August 2001. In December 2001, the DOE confirmed Avista Development's status as a PLP and named at least two other PLPs in this matter. During the first half of 2002, Avista and one other PLP met with the DOE to begin discussions and provided comments to the DOE on a draft Consent Decree and Scope of Work for a focused remedial investigation and feasibility study of the site. One other PLP has not been participating in negotiations. The actual cleanup of PCB sediments is not expected to occur until the EPA comes out with its final plan to remove heavy metals from the Spokane River resulting from mining contamination which occurred upstream in Idaho.

Lake Coeur d'Alene

In July 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d'Alene Tribe of Idaho owns portions of the bed and banks of Lake Coeur d'Alene and the St. Joe River lying within the current boundaries of the Coeur d'Alene Reservation. This action was brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action, the Company is continuing to evaluate the potential impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of Lake Coeur d'Alene. The United States District Court decision was affirmed by the Ninth Circuit Court of Appeals. The United States Supreme Court affirmed this decision in June 2001. This will result in the Company being liable to the Coeur d'Alene Tribe of Idaho for payments for use of reservation lands under Section 10(e) of the Federal Power Act.

Avista Labs

Logan Industries, Inc. (Logan) assembles and tests fuel cells for Avista Labs. Logan has filed for bankruptcy under chapter 11 of the United States Bankruptcy Code, purportedly to resolve a dispute with its principal lender. On June 25, 2002, Logan moved to dismiss the bankruptcy case, asserting that it no longer required the protection of the bankruptcy code. Logan continues to operate under protection of the bankruptcy code, and indicates that it will be able to continue its operations following dismissal of the bankruptcy case. No objections have been filed to Logan's motion to dismiss, and the time for objection has passed. No other substantial issues have been raised in the bankruptcy proceeding. Avista Labs is currently obtaining assembly and testing services from Logan and is also using an alternate supplier such that Logan is no longer its only manufacturer.

Other Contingencies

In the normal course of business, the Company has various other legal claims and contingent matters outstanding. The Company believes that any ultimate liability arising from these actions will not have a material adverse impact on the Company's financial condition or results of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Safe Harbor for Forward-Looking Statements

This Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Avista Corporation (Avista Corp. or the Company) is including the following cautionary statement to make applicable, and to take advantage of, the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, projections of future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions). Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of words such as, but not limited to, "will," "anticipates," "seeks to," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others:

- changes in the utility regulatory environment in the individual states in which the Company operates and the western United States in general
- the impact of regulatory and legislative decisions, including FERC price controls, and including possible retroactive price caps and resulting refunds
- the availability and prices of purchased energy, volatility and illiquidity in wholesale energy markets
- wholesale and retail competition (including but not limited to electric retail wheeling and transmission costs)
- future streamflow conditions and the impact on the availability of hydroelectric resources
- outages at any Company owned generating facilities
- changes in future demand, either due to weather conditions or customer growth
- failure to deliver on the part of any parties from which the Company purchases capacity or energy
- changes in the creditworthiness of customers and energy trading counterparties
- the Company's ability to obtain financing through debt and/or equity issuances
- the outcome of the proposed Montana Hydroelectric Security Act Initiative (See Note 9 of the Notes to Consolidated Financial Statements)

The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. However, there can be no assurance that the Company's expectations, beliefs or projections will be achieved or accomplished. Furthermore, any forward-looking statement speaks only as of the date on which such statement is made. The Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the Company's business or the extent to which any such factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

The following discussion and analysis is provided for the consolidated financial condition and results of operations of Avista Corp., including its subsidiaries. This discussion focuses on significant factors concerning the Company's financial condition and results of operations and should be read along with the consolidated financial statements.

Avista Corp. Lines of Business

Avista Corp. is an energy company involved in the generation, transmission and distribution of energy as well as other energy-related businesses. The Company is organized into four lines of business — Avista Utilities, Energy Trading and Marketing, Information and Technology, and Other. Avista Utilities, an operating division of Avista Corp. and not a separate entity, represents the regulated utility operations. Avista Capital, a wholly owned subsidiary of Avista Corp., is the parent company of all of the subsidiary companies engaged in the non-utility lines of business. As of June 30, 2002, the Company had common equity investments of $444.4 million and $287.0 million in Avista Utilities and Avista Capital, respectively.

Avista Utilities generates, transmits and distributes electricity and distributes natural gas. Avista Utilities owns and operates eight hydroelectric projects, a wood-waste fueled generating station and a two-unit natural gas-fired combustion turbine (CT) generating facility. It also owns a 15 percent share in a two-unit coal-fired generating facility and leases and operates a two-unit natural gas-fired CT generating facility. These facilities have a total net capability of approximately 1,480 megawatts, of which 65 percent is hydroelectric and 35 percent is thermal. By the end of 2002, Avista Utilities expects to have two small generating projects (total of 31 megawatts) and its ownership interest in the Coyote Springs 2 project (140 megawatts) in operation.

In addition to company owned resources, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources. Avista Utilities sells and purchases electric capacity and energy to and from utilities and other entities in the wholesale market under long-term contracts having terms of more than one year. In addition, Avista Utilities engages in an ongoing process of resource optimization which involves short-term purchases and sales in the wholesale market in pursuit of an economic selection of resources to serve retail and wholesale loads. Avista Utilities makes continuing projections of (1) future retail and wholesale loads based on, among other things, forward estimates of factors such as customer usage and weather as well as historical data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities makes purchases and sales of energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements and to sell any surplus at the best available price. This process includes hedging transactions.

During a year having normal water conditions, Avista Utilities would expect to have generation from its hydroelectric resources (both owned and purchased under long-term hydroelectric contracts) of approximately 550 aMW. Average hydroelectric production for the year 2001 was 369 aMW (67 percent of normal), which was 181 aMW below normal and the lowest level in the 73 years in which records have been kept. Current forecasts indicate streamflow conditions will be 110 percent of normal and hydroelectric generation will be slightly above normal for 2002.

Developments in wholesale energy markets, compounded by the record low availability of hydroelectric resources in 2001, have had an adverse effect on Avista Corp.'s financial condition, results of operations, cash flows and liquidity. See "Avista Utilities — Regulatory Matters", "Results of Operations" and "Liquidity and Capital Resources."

The Energy Trading and Marketing line of business is comprised of Avista Energy, Inc. (Avista Energy) and Avista Power, LLC (Avista Power). Avista Energy is an electricity and natural gas marketing and trading business, operating primarily in the Western Electricity Coordinating Council (WECC) geographical area, which is comprised of eleven Western states. Avista Power was originally formed to develop and own generation assets. During 2001, the Company decided that Avista Power would no longer pursue the development of additional non-regulated generation projects. Avista Power continues to manage the generation assets it currently owns.

The Information and Technology line of business is comprised of Avista Advantage, Inc. (Avista Advantage) and Avista Laboratories, Inc. (Avista Labs). Avista Advantage is a provider of internet-based facility intelligence, cost management, billing and information services to retail customers throughout North America. Its primary product lines include consolidated billing, resource accounting, energy analysis, load profiling and maintenance and repair billing services. Avista Labs has developed a unique modular Proton Exchange Membrane (PEM) fuel cell that delivers reliable and clean distributed power solutions. In addition to its PEM fuel cell, Avista Labs seeks to commercialize selected components to complement its fuel cell in order to deliver system solutions to industrial, commercial and residential markets. Avista Labs holds a 70 percent equity interest in H2fuel, LLC, a developer of fuel processors for the production of hydrogen.

The Other line of business includes Avista Ventures, Inc. (Avista Ventures), Avista Capital (parent company only amounts), Pentzer Corporation (Pentzer) and several other minor subsidiaries. The Company continues to limit its future investment in this line of business.

Avista Communications, Inc. (Avista Communications), formerly part of the Information and Technology line of business, provided local dial tone, data transport, internet services, voice messaging and other telecommunications services to several communities in the western United States. In September 2001, Avista Corp. decided that it would dispose of substantially all of the assets of Avista Communications. As such, these operations are reported as a discontinued operation. Avista Corp. began its divestiture of this business during the fourth quarter of 2001, and the divestiture is expected to be completed by the end of 2002.

Avista Utilities — Regulatory Matters

Beginning in the second quarter of 2000, the price of power in the wholesale markets of the western United States increased considerably and became much more volatile. While prices and volatility decreased during the second half of 2001, the effects of contracts entered during the period of high wholesale prices continue to have an impact on Avista Corp.'s financial condition and results of operations. In the second half of 2000 and continuing through 2001, Avista Utilities was required to purchase above-normal amounts of power in the wholesale market to meet its retail demand. This was primarily due to the reduced availability of hydroelectric resources as a result of low streamflow conditions. The combination of high wholesale market prices and increased amounts required to be purchased increased power supply costs to amounts far in excess of the amounts recovered from retail customers under rates in effect at the time.

As authorized by the WUTC and the IPUC, Avista Utilities defers the recognition in the income statement of certain power supply costs that are in excess of the level currently recovered from retail customers. Deferred power supply costs are recorded as a deferred charge on the balance sheet for future review and the opportunity for recovery through retail rates. The specific power costs deferred are a percentage of the difference between certain actual power supply costs incurred by Avista Utilities and the costs included in base retail rates. This difference is primarily related to changes in short-term wholesale market prices, changes in the level of hydroelectric generation and changes in the level of thermal generation (including changes in fuel prices).

In June 2002, the WUTC issued an order that became effective July 1, 2002 with respect to a general electric rate case filed by Avista Utilities in December 2001. The order provides for an overall rate of return of 9.72 percent and a return on equity of 11.16 percent. The order provided for no incremental rate increase to Avista Utilities' Washington electric customers above the rates currently in effect. Rate increases previously approved by the WUTC totaling 31.2 percent (a 25 percent temporary surcharge approved in September 2001 for the recovery of deferred power costs and a 6.2 percent increase approved in March 2002) have been restructured. The general increase to base retail rates is 19.3 percent (or $45.7 million in annual revenues) and the remaining 11.9 percent represents the continued recovery of deferred power costs over a period currently projected to continue through 2007.

In the June 2002 rate order, the WUTC approved the establishment of an Energy Recovery Mechanism (ERM). The ERM replaces a series of temporary deferral mechanisms that have been in place in Washington since mid-2000. The ERM allows Avista Utilities to increase or decrease electric rates over time to reflect changes in power supply costs. The ERM provides for Avista Utilities to incur the cost of, or receive the benefit from, the first $9 million in annual power supply costs above or below the amount included in base retail rates. As the ERM was implemented on July 1, 2002, the Company's expense or benefit is limited to $4.5 million for 2002. Under the ERM, 90 percent of the power supply costs exceeding the initial $9 million ($4.5 million for 2002) will be deferred for future rebate or surcharge to Avista Utilities' customers. The remaining 10 percent will be an expense of, or benefit to, the Company.

In the December 2001 general rate case filing, Avista Corp. requested, and the WUTC approved, the implementation of a temporary accounting mechanism for the deferral of power costs incurred in excess of the amount recovered through rates effective January 1, 2002 until the conclusion of the general rate case. This temporary mechanism provided for the deferral of 90 percent of the difference between actual net power supply costs and the amount of power supply costs authorized in current rates. This temporary mechanism was replaced by the ERM effective July 1, 2002.

Avista Utilities has a PCA mechanism in Idaho that allows it to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA mechanism allows for the deferral of 90 percent of the difference between certain actual net power supply expenses and the authorized level of net power supply expense approved in the last Idaho general rate case. In October 2001, the IPUC issued an order approving a 14.7 percent PCA surcharge for Idaho electric customers and granted an extension of a 4.7 percent PCA surcharge implemented earlier in 2001 that was to expire January 31, 2002. Both PCA surcharges will remain in effect until October 2002. In August 2002, Avista Utilities filed a status report with the IPUC to request a continuation of the PCA surcharge. If review of the status report and the actual balance of deferred power costs support continuation of the PCA surcharge, the IPUC has indicated that it anticipates the PCA surcharge will be extended for an additional period.

As of June 30, 2002, total deferred power costs were $163.0 million, including $116.3 million in Washington and $46.7 million in Idaho. Based on current projections, total deferred power costs are expected to be approximately $144 million at the end of 2002.

The following table shows activity in deferred power costs for Washington and Idaho during 2001 and the six months ended June 30, 2002 (dollars in thousands):

	Washington	Idaho	Total
Deferred power costs as of December 31, 2000	$ 34,580	$ 2,693	$ 37,273
Activity from January 1 — December 31, 2001:			
Power costs deferred	167,196	73,677	240,873
Mark-to-market loss	8,232	4,077	12,309
Interest and other net additions	16,027	5,643	21,670
Amortization of deferred credit	(53,794)	(6,927)	(60,721)
Recovery of deferred power costs	(10,223)	(6,076)	(16,299)
Write-off deferred power costs	(21,780)	—	(21,780)
Deferred power costs as of December 31, 2001	140,238	73,087	213,325
Activity from January 1 — June 30, 2002:			
Power costs deferred	4,172	2,155	6,327
Mark-to-market gain	(5,991)	(2,967)	(8,958)
Interest and other net additions	3,467	1,112	4,579
Amortization of deferred credit	—	(13,856)	(13,856)
Recovery of deferred power costs	(25,598)	(12,821)	(38,419)
Deferred power costs as of June 30, 2002	$116,288	$ 46,710	$162,998

Enron Exposure

See “Enron Corporation” in Note 9 of the Notes to Consolidated Financial Statements.

Western Power Market Issues

Avista Utilities and Avista Energy are directly and indirectly involved in the power markets in the western United States. Developments in these markets have impacted both Avista Utilities and Avista Energy. Federal and state officials, including the FERC and the California Public Utility Commission (CPUC), commenced reviews in 2000 to determine the causes of the changes in the wholesale energy markets to develop legal and regulatory remedies to address alleged market failures or abuses and large defaults by certain parties in the wholesale markets. The proceedings are continuing and their ultimate outcome and the resulting impact on the Company cannot be predicted at this time.

In early 2001, California’s two largest utilities, Southern California Edison (SCE) and Pacific Gas & Electric Company (PG&E), defaulted on payment obligations owed to various energy sellers, including the California Power Exchange (CalPX), California Independent System Operator (CalISO), and Automated Power Exchange (APX). Consequently, CalPX, CalISO and APX defaulted on their payment obligations to Avista Energy. PG&E and CalPX filed voluntary petitions under chapter 11 of the bankruptcy code for protection from creditors. On March 1, 2002, SCE paid its past due obligations to the CalPX and various other creditors; however, these funds did not flow directly to Avista Energy. As of June 30, 2002, Avista Energy’s accounts receivable outstanding related to defaulting parties in California did not exceed its reserves for uncollected amounts, cost of collection, and refunds. Avista Energy is currently pursuing recovery of the defaulted obligations.

In April 2001, the FERC issued a price mitigation order that affected the CalISO spot market. In June 2001, the FERC expanded its price mitigation plan for the California spot market to 24 hours a day, seven days a week and broadened the price caps to the eleven-state Western region. In July 2002, the FERC extended the price mitigation plan past October 1, 2002 and increased the price cap from $92/MWh to $250/MWh. Price caps and changes in the price of electricity do not currently have a significant impact on Avista Utilities because it currently has resources and long-term contracts sufficient to meet its loads.

In July 2001, the FERC issued an order to commence a fact-finding hearing to determine if refunds should be owed and if so, the amounts of such refunds, for sales during the period from October 2, 2000 to June 20, 2001 in the California spot market. The order provides that any refunds owed could be offset against unpaid energy debts due to the same party. The FERC schedule for this proceeding has been postponed repeatedly and is currently scheduled for August 19, 2002. Avista Energy is participating in this proceeding pursuant to the FERC order and cannot predict its outcome at this time. If retroactive price caps or refunds were imposed, Avista Energy could assert offsetting claims.

The July 2001 FERC order also directed an evidentiary proceeding to explore wholesale power market issues in the Pacific Northwest to determine whether there were excessive charges for spot market sales in the Pacific Northwest during the period from December 25, 2000 to June 20, 2001. Based on their application of selected retroactive pricing methods, certain parties asserted claims for significant refunds from Avista Energy and lesser refunds from Avista Utilities. Avista Energy and Avista Utilities joined with numerous other wholesale market participants to vigorously oppose proposals for retroactive price caps and refund claims. In September 2001, the FERC's administrative law judge for this proceeding issued a recommendation that the FERC should not order refunds for the Pacific Northwest for the period in question and that the FERC should take no further action on these matters. The FERC has not yet issued a decision in the Pacific Northwest refund proceeding. If retroactive price caps or refunds were imposed, Avista Utilities and Avista Energy could assert offsetting claims.

See further information under "Federal Energy Regulatory Commission (FERC) Inquiry", "U.S. Commodity Futures Trading Commission (CFTC) Subpoena" and "California Energy Markets" in Note 9 of the Notes to Consolidated Financial Statements.

Avista Corp. is participating with nine other utilities in the Pacific Northwest in the possible formation of a Regional Transmission Organization (RTO), RTO West, a non-profit organization. The potential formation of RTO West is in response to a FERC order requiring all utilities subject to FERC regulation to file a proposal to form a RTO, or a description of efforts to participate in a RTO, and any existing obstacles to RTO participation. RTO West filed its Stage 2 proposal with the FERC in March 2002 and currently expects to receive a response from the FERC in September 2002. Avista Corp. and two other Western utilities have also taken steps toward the formation of a for-profit Independent Transmission Company, TransConnect, which would be a member of RTO West, serve portions of five states and own or lease the high voltage transmission facilities of the participating utilities. TransConnect filed its proposal with FERC in November 2001. The final proposals must both be approved by the FERC, the boards of directors of the filing companies and regulators in various states. The companies' decision to move forward with the formation of TransConnect or RTO West will ultimately depend on the conditions related to the formation of the entities, as well as the economics and conditions imposed in the regulatory approval process. If TransConnect were formed, it could result in Avista Utilities divesting its electric transmission assets. The formation of RTO West or TransConnect could have an impact on the Company's transmission costs. However, the Company believes that any changes to transmission costs would be reflected as an adjustment to retail rates.

On July 31, 2002, the FERC issued a Notice of Proposed Rulemaking (NOPR) proposing standard market design rules that would significantly alter the markets for wholesale electricity and transmission and ancillary services in the United States. The new rules would establish a generation adequacy requirement for "load-serving entities" and a standard platform for the sale of electricity and transmission services. Under the new rules, Independent Transmission Providers would administer spot markets for wholesale power, ancillary services and transmission congestion rights, and electric utilities, including Avista Utilities, would be required to transfer control over transmission facilities to the applicable Independent Transmission Provider. The NOPR is open for a 75-day comment period with final rules expected to be issued by the end of 2002. Once the final rules are issued, a phased compliance schedule will begin with final implementation expected to take effect no later than September 30, 2004. The Company is currently in the process of determining the impact the proposed rules would have on its operations.

Results of Operations

Overall Operations

Three months ended June 30, 2002 compared to the three months ended June 30, 2001

Income from continuing operations was $9.3 million for the three months ended June 30, 2002 compared to income from continuing operations of $26.0 million for the three months ended June 30, 2001. The decrease is primarily due to reduced net income recorded by the Energy Trading and Marketing line of business. Energy Trading and Marketing recorded net income of $8.5 million for the three months ended June 30, 2002 compared to $23.6 million for the three months ended June 30, 2001. The primary reason for the decrease in net income was a reduction in Avista Energy's gross margin, both realized and unrealized. During the second half of 2001 and the first half of 2002, volatility in wholesale energy markets in the western United States decreased relative to the first half of 2001, which reduced Avista Energy's earnings potential. Net income recorded by Avista Utilities was $12.0 million for the three months ended June 30, 2002, compared to net income of $10.1 million for the three months ended June 30, 2001.

The Information and Technology line of business incurred a net loss of $4.3 million for the three months ended June 30, 2002 compared to a net loss of $5.7 million for three months ended June 30, 2001.

The Other line of business incurred a net loss of $6.9 million for three months ended June 30, 2002 compared to a net loss of $2.0 million for the three months ended June 30, 2001. The increase in the net loss is primarily due to litigation costs.

The discontinued operations of Avista Communications recorded net income of $1.0 million for three months ended June 30, 2002 compared to a net loss of $3.3 million for the three months ended June 30, 2001. Net income for the three months ended June 30, 2002 is primarily due to the favorable settlement of a lawsuit during the period.

Total revenues decreased $795.1 million for the three months ended June 30, 2002 compared to the three months ended June 30, 2001. Avista Utilities' revenues decreased $126.1 million, or 40 percent, primarily due to decreased wholesale electric sales, partially offset by increased electric retail revenues. Wholesale sales volumes decreased primarily due to the expiration of several wholesale electric sales contracts, including two 100 MW index-based sales contracts that expired in July 2001. The increase in retail revenues is primarily a result of higher rates approved by state regulatory agencies to recover deferred power costs. Revenues from Energy Trading and Marketing decreased $689.2 million, or 55 percent, primarily due to decreased energy commodity prices and reduced market volatility partially offset by an increase in energy trading volumes. Revenues from the Information and Technology companies increased 28 percent to $4.0 million primarily as a result of customer growth at Avista Advantage. Revenues from the Other line of business were $3.5 million in each of the three-month periods ended June 30, 2002 and 2001. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. Intersegment eliminations decreased $19.4 million due to a decrease in prices for natural gas to serve Avista Utilities' retail customers and to fuel natural gas-fired turbines to generate electricity.

Total resource costs decreased $775.2 million for the three months ended June 30, 2002 compared to the three months ended June 30, 2001. Avista Utilities' resource costs decreased $132.8 million, or 63 percent, primarily due to reduced power purchase expenses and decreased fuel for generation expenses. Power purchase expenses and fuel for generation decreased due to lower wholesale market prices, increased hydroelectric generation, reduced wholesale obligations and decreased thermal generation. Decreases in power and fuel for generation were partially offset by $13.1 million of net amortization of deferred power and natural gas costs for the three months ended June 30, 2002, compared to net deferrals of $67.9 million for the three months ended June 30, 2001. Energy Trading and Marketing's resource costs decreased $661.7 million, or 54 percent, primarily due to decreased energy commodity prices and reduced market volatility partially offset by increased energy trading volumes.

Operations and maintenance expenses decreased $5.5 million primarily due to reduced expenses for Avista Utilities. The decrease is primarily due to management initiatives designed to reduce operating expenses to improve liquidity and operating cash flows.

Administrative and general expenses increased $2.3 million primarily due to increased litigation costs for the Other business segment partially offset by decreased expenses for Energy Trading and Marketing. The decrease for Energy Trading and Marketing was primarily a result of reduced incentive compensation expenses as a result of decreased earnings as well as reduced professional fees.

Interest expense decreased $1.3 million for the three months ended June 30, 2002 compared to the three months ended June 30, 2001, primarily due to reduced levels of outstanding debt during the period.

Other income-net decreased $8.0 million primarily due to reduced interest income.

Income taxes decreased $8.1 million for the three months ended June 30, 2002 compared to the three months ended June 30, 2001, primarily due to decreased earnings before income taxes. The effective tax rate was 47.3 percent for the three months ended June 30, 2002 compared to 38.8 percent for the three months ended June 30, 2001. The increase in the effective tax rate is primarily due to decreased earnings and the increased effect of permanent tax differences, such as accelerated tax depreciation.

Diluted earnings per share from continuing operations were $0.18 for the three months ended June 30, 2002 compared to earnings from continuing operations of $0.54 per diluted share for the three months ended June 30, 2001. Avista Utilities contributed $0.24 per diluted share for the three months ended June 30, 2002 compared to $0.20 per diluted share for the three months ended June 30, 2001. Energy Trading and Marketing contributed $0.18 per diluted share for the three months ended June 30, 2002 compared to $0.50 per diluted share for three months ended June 30, 2001. The Information and Technology operations recorded a net loss of $0.09 per diluted share for

the three months ended June 30, 2002 compared to a net loss of $0.12 per diluted share for the three months ended June 30, 2001. The Other line of business recorded a net loss of $0.15 per diluted share for the three months ended June 30, 2002 compared to a net loss of $0.04 per diluted share for the three months ended June 30, 2001. The discontinued operations of Avista Communications recorded net income of $0.02 per diluted share for the three months ended June 30, 2002 compared to a net loss of $0.07 per diluted share for the three months ended June 30, 2001.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

Income from continuing operations was $24.9 million for the six months ended June 30, 2002 compared to income from continuing operations of $58.1 million for the six months ended June 30, 2001. The decrease is primarily due to reduced net income recorded by the Energy Trading and Marketing line of business. Energy Trading and Marketing recorded net income of $16.7 million for the six months ended June 30, 2002 compared to $48.3 million for the six months ended June 30, 2001. The primary reason for the decrease in net income was a reduction in Avista Energy's gross margin, both realized and unrealized. During the second half of 2001 and the first half of 2002, volatility in wholesale energy markets in the western United States decreased relative to the first half of 2001, which reduced Avista Energy's earnings potential. Net income recorded by Avista Utilities was $25.2 million for the six months ended June 30, 2002, compared to net income of $23.2 million for the six months ended June 30, 2001.

The Information and Technology line of business incurred a net loss of $7.1 million for the six months ended June 30, 2002 compared to a net loss of $10.7 million for six months ended June 30, 2001.

The Other line of business incurred a net loss of $10.0 million for the six months ended June 30, 2002 compared to a net loss of $2.7 million for the six months ended June 30, 2001. The increase in the net loss is primarily due to litigation costs.

The discontinued operations of Avista Communications recorded net income of $0.7 million for the six months ended June 30, 2002 compared to a net loss of $6.0 million for the six months ended June 30, 2001. Consistent with the quarter, net income for the six months ended June 30, 2002 is primarily due to the favorable settlement of a lawsuit during the period.

Total revenues decreased $2,069.9 million for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. Avista Utilities' revenues decreased $256.1 million, or 35 percent, primarily due to decreased wholesale electric sales, partially offset by increased retail revenues from both electric and natural gas sales. Wholesale sales volumes decreased primarily due to the expiration of several wholesale electric sales contracts, including two 100 MW index-based sales contracts that expired in July 2001. The increase in retail revenues is primarily a result of higher rates approved by state regulatory agencies to recover deferred power and natural gas costs. Revenues from Energy Trading and Marketing decreased $1,924.7 million, or 64 percent, primarily due to decreased energy commodity prices as well as reduced market volatility. Revenues from the Information and Technology companies increased 30 percent to $8.0 million primarily as a result of customer growth at Avista Advantage. Revenues from the Other line of business decreased $2.8 million reflecting decreased activity in this line of business. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. Intersegment eliminations decreased $111.9 million due to a decrease in prices for natural gas to serve Avista Utilities' retail customers and to fuel natural gas-fired turbines to generate electricity.

Total resource costs decreased $2,026.3 million for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. Avista Utilities' resource costs decreased $276.1 million, or 53 percent, primarily due to reduced power purchase expenses, decreased cost of natural gas purchased to serve retail customers and the decreased fuel for generation expenses. Power purchase expenses, natural gas purchased and fuel for generation decreased due to lower wholesale market prices, increased hydroelectric generation, reduced wholesale obligations and decreased thermal generation. Decreases in power and natural gas purchases as well as fuel for generation were partially offset by $63.4 million of net amortization of deferred power and natural gas costs for the six months ended June 30, 2002, compared to net deferrals of $134.5 million for the six months ended June 30, 2001. Energy Trading and Marketing's resource costs decreased $1,862.1 million, or 64 percent, primarily due to decreased energy commodity prices as well as reduced market volatility.

Operations and maintenance expenses decreased $4.3 million primarily due to reduced expenses for Avista Utilities. The decrease is primarily due to management initiatives designed to reduce operating expenses to improve liquidity and operating cash flows.

Administrative and general expenses decreased $6.1 million primarily due to reduced expenses for Energy Trading

and Marketing. This was primarily a result of reduced incentive compensation expenses as a result of decreased earnings as well as reduced professional fees. This was partially offset by an increase in the Other business segment due to litigation costs.

Other income-net decreased $8.0 million primarily due to reduced interest income.

Interest expense increased $6.6 million for the six months ended June 30, 2002 compared to the six months ended June 30, 2001, primarily due to higher average levels of outstanding debt during the period.

Income taxes decreased $18.1 million for the six months ended June 30, 2002 compared to the six months ended June 30, 2001, primarily due to decreased earnings before income taxes. The effective tax rate was 44.6 percent for the six months ended June 30, 2002 compared to 39.6 percent for the six months ended June 30, 2001. The increase in the effective tax rate is primarily due to decreased earnings and the increased effect of permanent tax differences.

In April 2002, the Company completed its transitional test of goodwill related to the adoption of SFAS No. 142, “Goodwill and Other Intangible Assets.” Accordingly, the Company determined that $6.4 million of goodwill related to Advanced Manufacturing and Development, a subsidiary of Avista Ventures, was impaired. The Company has recorded this impairment of $4.1 million, net of tax, as a cumulative effect of accounting change in the Consolidated Statement of Income.

Diluted earnings per share from continuing operations were $0.49 for the six months ended June 30, 2002 compared to earnings from continuing operations of $1.21 per diluted share for the six months ended June 30, 2001. Avista Utilities contributed $0.50 per diluted share for the six months ended June 30, 2002 compared to $0.47 per diluted share for the six months ended June 30, 2001. Energy Trading and Marketing contributed $0.35 per diluted share for the six months ended June 30, 2002 compared to $1.02 per diluted share for the six months ended June 30, 2001. The Information and Technology operations recorded a net loss of $0.15 per diluted share for the six months ended June 30, 2002 compared to a net loss of $0.22 per diluted share for the six months ended June 30, 2001. The Other line of business recorded a net loss of $0.21 per diluted share for the six months ended June 30, 2002 compared to a net loss of $0.06 per diluted share for the six months ended June 30, 2001. The discontinued operations of Avista Communications recorded net income of $0.02 per diluted share for the six months ended June 30, 2002 compared to a net loss of $0.13 per diluted share for the six months ended June 30, 2001. The cumulative effect of accounting change resulted in a charge of $0.09 per diluted share for the six months ended June 30, 2002.

Avista Utilities

Three months ended June 30, 2002 compared to the three months ended June 30, 2001

Avista Utilities recorded net income of $12.0 million for the three months ended June 30, 2002 compared to net income of $10.1 million for the three months ended June 30, 2001. Avista Utilities’ pre-tax income from operations was $41.2 million for the three months ended June 30, 2002 compared to $34.5 million for the three months ended June 30, 2001. This increase was primarily due to an increase in gross margin. Avista Utilities’ operating revenues decreased $126.1 million and resource costs decreased $132.8 million resulting in an increase of $6.8 million in gross margin for the three months ended June 30, 2002 as compared to the three months ended June 30, 2001.

Retail electric revenues increased $14.8 million for the three months ended June 30, 2002 from the three months ended June 30, 2001. This increase was primarily due to the electric surcharges implemented in Washington and Idaho to recover deferred power costs, partially offset by decreased use per customer and total kWhs sold. Wholesale electric revenues decreased $145.5 million, or 89 percent, reflecting wholesale sales volumes which decreased 52 percent from 2001 and average sales prices that were 76 percent lower than the prior year. Wholesale sales volumes decreased primarily due to the expiration of several wholesale electric sales contracts, including two 100 MW index-based sales that expired in July 2001. The extent of future wholesale transactions will be based on changes to resources, loads, and contractual obligations.

Other electric revenues increased $4.9 million primarily due to the sale of natural gas purchased for generation that was not used in Avista Utilities’ own generation.

Natural gas revenues decreased $0.3 million for the three months ended June 30, 2002 from the three months ended June 30, 2001. Retail natural gas revenues increased $0.4 million and wholesale natural gas revenues decreased $0.7 million.

Power purchased for the three months ended June 30, 2002 decreased $203.0 million, or 94 percent, compared to the

three months ended June 30, 2001 primarily due to the decreased volume and price of power purchases. Average purchased power prices for the three months ended June 30, 2002 were 86 percent lower than the three months ended June 30, 2001 and volumes purchased decreased 60 percent compared to the three months ended June 30, 2001. The decrease in the volume of purchased power was primarily the result of decreases in the volume of wholesale electric sales as discussed above. Increased hydroelectric resource availability also decreased wholesale power purchase requirements to meet retail demand.

During the three months ended June 30, 2002 Avista Utilities recovered $10.1 million in deferred power costs in Washington and $5.8 million in Idaho. The total balance of deferred power costs was $116.3 million for Washington and $46.7 million for Idaho as of June 30, 2002. In September 2001, the WUTC approved a temporary electric surcharge of 25 percent. The June 2002 WUTC order with respect to the general electric rate case modified the electric surcharge such that 11.9 percent represents the continued recovery of deferred power costs and the remainder will be applied to offset the Company's general operating costs. In October 2001, the IPUC approved a PCA surcharge and the extension of a previously approved PCA surcharge for a total of 19.4 percent. During the three months ended June 30, 2002, $6.9 million of a deferred non-cash credit was offset against the Idaho share of deferred power costs. See further description of the issues related to deferred power costs in the section "Avista Utilities — Regulatory Matters."

During the three months ended June 30, 2002 Avista Utilities had $4.5 million of net amortization of deferred natural gas costs. Total deferred natural gas costs were $21.3 million as of June 30, 2002.

The cost of fuel for generation for the three months ended June 30, 2002 decreased $22.9 million from the three months ended June 30, 2001 primarily due to a decrease in thermal generation. Thermal generation decreased 51 percent primarily due to increased hydroelectric generation and lower wholesale market prices. As such, less thermal generation was needed to meet retail demand.

The expense for natural gas purchased for the three months ended June 30, 2002 decreased $1.1 million compared to the three months ended June 30, 2001.

Other resource costs for the three months ended June 30, 2002 increased $13.2 million compared to the three months ended June 31, 2001. This increase was primarily due to the increased cost of natural gas purchased as fuel for generation that was not used. This excess natural gas was sold with the associated revenues reflected as other electric revenues.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

Avista Utilities recorded net income of $25.2 million for the six months ended June 30, 2002 compared to net income of $23.2 million for the six months ended June 30, 2001. Avista Utilities' pre-tax income from operations was $86.4 million for the six months ended June 30, 2002 compared to $72.2 million for the six months ended June 30, 2001. This increase was primarily due to an increase in gross margin. Avista Utilities' operating revenues decreased $256.1 million and resource costs decreased $276.1 million resulting in an increase of $20.0 million in gross margin for the six months ended June 30, 2002 as compared to the six months ended June 30, 2001.

Retail electric revenues increased $39.7 million for the six months ended June 30, 2002 from the six months ended June 30, 2001. This increase was primarily due to the electric surcharges implemented in Washington and Idaho to recover deferred power costs, partially offset by decreased use per customer and total kWhs sold. The increase in retail electric revenues was also due to refunds to customers in January 2001 from the gain on the sale of Avista Utilities' interest in the Centralia Power Plant which reduced revenues for the six months ended June 30, 2001. Wholesale electric revenues decreased $324.6 million, or 90 percent, reflecting wholesale sales volumes which decreased 69 percent from 2001 and average sales prices that were 69 percent lower than the prior year. Wholesale sales volumes decreased primarily due to the expiration of several wholesale electric sales contracts, including two 100 MW index-based sales that expired in July 2001. The extent of future wholesale transactions will be based on changes to resources, loads, and contractual obligations.

Other electric revenues increased $7.9 million primarily due to the sale of natural gas purchased for generation that was not used in generation.

Natural gas revenues increased $21.0 million for the six months ended June 30, 2002 from the six months ended June 30, 2001 due to increased prices approved by state commissions to recover increased natural gas costs.

Power purchased for the six months ended June 30, 2002 decreased $416.6 million, or 91 percent, compared to the six months ended June 30, 2001 primarily due to the decreased volume and price of power purchases. Average purchased power prices for the six months ended June 30, 2002 were 76 percent lower than the six months ended June 30, 2001 and volumes purchased decreased 61 percent compared to the six months ended June 30, 2001. The decrease in the volume of purchased power was primarily the result of decreases in the volume of wholesale electric sales as discussed above. Increased hydroelectric resource availability also decreased wholesale power purchase requirements to meet retail demand.

During the six months ended June 30, 2002, Avista Utilities recovered $25.6 million in deferred power costs in Washington and $12.8 million in Idaho. During the six months ended June 30, 2002, $13.9 million of a deferred non-cash credit was offset against the Idaho share of deferred power costs. See further description of issues related to deferred power costs in the section “Avista Utilities — Regulatory Matters.”

During the six months ended June 30, 2002, Avista Utilities had $32.3 million of net amortization of deferred natural gas costs. Total deferred natural gas costs were $21.3 million as of June 30, 2002.

The cost of fuel for generation for the six months ended June 30, 2002 decreased $43.1 million from the six months ended June 30, 2001 primarily due to a decrease in thermal generation. Thermal generation decreased 48 percent primarily due to increased hydroelectric generation and wholesale market prices. As such, less thermal generation was needed to meet retail demand.

The expense for natural gas purchased for the six months ended June 30, 2002 decreased $47.4 million compared to the six months ended June 30, 2001 primarily due to the decreased cost of natural gas.

Other resource costs for the six months ended June 30, 2002 increased $33.2 million compared to the six months ended June 30, 2001. During January 2001, $16.2 million related to the gain on the sale of Avista Utilities’ interest in the Centralia Power Plant was amortized as a credit to other resource costs. Also contributing to the increase in other resource costs was an increase in natural gas purchased as fuel for generation that was not used. This excess natural gas was sold with the associated revenues reflected as other electric revenues.

Construction is continuing on the 280 MW combined cycle natural gas-fired turbine power plant at the Coyote Springs 2 site near Boardman, Oregon which is currently 50 percent owned by Avista Power and 50 percent owned by an affiliate of Mirant Americas Development, Inc. (Mirant). Avista Power’s 50 percent ownership interest in the plant is included in the Energy Trading and Marketing line of business. Avista Corp. and Mirant will share equally in the costs of construction, operation and output from the plant. On May 6, 2002, a transformer at the site failed and caught fire resulting in the release of an estimated 17,000 gallons of coolant oil. While the cause of the failure is still being investigated, the Company anticipates the cost of the cleanup as well as the cost of replacing the damaged transformer will be considered covered losses under the relevant insurance policies. Additionally, the Company continues to evaluate the merits of possible claims against those parties that may be responsible for the failure. The damage to the transformer has delayed the scheduled completion of the project from the third quarter of 2002 to the fourth quarter of 2002. As of June 30, 2002, the Company had invested $97.4 million in the Coyote Springs 2 project (including capitalized interest) and the Company’s total investment in the project is expected to be $108.4 million (including capitalized interest) at completion. The Company’s 50 percent ownership interest in the plant will be transferred from Avista Power to Avista Corp. to be operated as an asset of Avista Utilities upon the completion of construction.

Energy Trading and Marketing

Energy Trading and Marketing includes the results of Avista Energy and Avista Power. Avista Energy maintains an energy trading portfolio that it marks to estimated fair market value on a daily basis (mark-to-market accounting), which causes earnings variability. Market prices are utilized in determining the value of electric, natural gas and related derivative commodity instruments. For longer-term positions and certain short-term positions for which market prices are not available, models based on forward price curves are utilized. These models incorporate a variety of estimates and assumptions most of which are beyond Avista Energy’s control, including, among others, estimates and assumptions as to demand growth, fuel price escalation, availability of existing generation and costs of new generation. Actual experience can vary significantly from these estimates and assumptions.

Avista Energy trades electricity and natural gas, along with derivative commodity instruments including futures, options, swaps and other contractual arrangements. Most transactions are conducted on a largely unregulated “over-the-counter” basis, there being no central clearing mechanism (except in the case of specific instruments traded on

the commodity exchanges). Avista Energy's trading operations continue to be affected by, among other things, volatility of prices within the electric energy and natural gas markets, the demand for and availability of energy, lower unit margins on new sales contracts, FERC-ordered price caps, deregulation of the electric utility industry, the creditworthiness of counterparties and the reduced liquidity in energy markets. See "Business Risk" for further information.

Three months ended June 30, 2002 compared to the three months ended June 30, 2001

Energy Trading and Marketing's net income was $8.5 million for the three months ended June 30, 2002, compared to $23.6 million for the three months ended June 30, 2001. The primary reason for the decrease in net income was a decrease in gross margin, both realized and unrealized. Gross margin was $19.9 million for the three months ended June 30, 2002 compared to $47.4 million for the three months ended June 30, 2001.

Energy Trading and Marketing's operating revenues and cost of sales decreased $689.2 million and $661.7 million, respectively, for the three months ended June 30, 2002 compared to the three months ended June 30, 2001, resulting in a decrease in gross margin of $27.5 million. The decrease in revenues and cost of sales is the result of decreased energy commodity prices partially offset by increased sales volumes from 2001. Realized gross margin decreased to $31.6 million for the three months ended June 30, 2002 from $37.8 million for the three months ended June 30, 2001. The decrease was primarily due to a decrease in the underlying commodity values that settled, as well as a decrease in the volatility in the wholesale energy markets. The total mark-to-market adjustment for Energy Trading and Marketing was an unrealized loss of $11.7 million for the three months ended June 30, 2002 compared to an unrealized gain of $9.6 million for the three months ended June 30, 2001. The decrease is primarily due to the settlement of contracts and the realization of previously unrealized gains and decreased volatility in the wholesale energy markets.

Administrative and general expenses decreased $3.9 million, or 36 percent, from the three months ended June 30, 2001 primarily due to reduced incentive compensation expense based on lower earnings in 2002.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

Energy Trading and Marketing's net income was $16.7 million for the six months ended June 30, 2002, compared to $48.3 million for the six months ended June 30, 2001. The primary reason for the decrease in net income was a decrease in gross margin, both realized and unrealized. Gross margin was $34.4 million for the six months ended June 30, 2002 compared to $97.0 million for the six months ended June 30, 2001.

Energy Trading and Marketing's operating revenues and cost of sales decreased $1,924.7 million and $1,862.1 million, respectively, for the six months ended June 30, 2002 compared to the six months ended June 30, 2001, resulting in a decrease in gross margin of $62.6 million. The decrease in revenues and cost of sales is the result of decreased energy commodity prices. Realized gross margin decreased to $63.5 million for the six months ended June 30, 2002 from $94.1 million for the six months ended June 30, 2001. The decrease was primarily due to a decrease in the underlying commodity values that settled, as well as a decrease in the volatility in the wholesale energy markets. The total mark-to-market adjustment for Energy Trading and Marketing was an unrealized loss of $29.1 million for the six months ended June 30, 2002 compared to an unrealized gain of $2.9 million for the six months ended June 30, 2001. The decrease is primarily due to the settlement of contracts and the realization of previously unrealized gains and decreased volatility in the wholesale energy markets.

Administrative and general expenses decreased $11.5 million, or 51 percent, from the six months ended June 30, 2001 primarily due to reduced incentive compensation expense based on lower earnings in 2002. Reduced professional fees also contributed to the decrease in administrative and general expenses. Professional fees were high during the six months ended June 30, 2001 due to expenses associated with the California energy crisis (see "Western Power Market Issues") and the CFTC investigation related to certain trades in 1998, which was resolved in 2001.

Energy Trading and Marketing's total assets decreased $159.4 million from December 31, 2001 to June 30, 2002 primarily due to a decrease in total current and non-current energy commodity assets. This decrease in commodity assets primarily reflects the settlement of contracts during the six months ended June 30, 2002.

The following summarizes information with respect to Avista Energy's trading activities during the six months ended June 30, 2002 (dollars in thousands):

	Natural Gas Assets and Liabilities	Electric Assets and Liabilities	Total Unrealized Gain (Loss) (4)
Fair value of contracts as of December 31, 2001	$ 38,392	$148,325	$186,717
Less contracts settled during 2002 (1)	(25,507)	(38,024)	(63,531)
Fair value of new contracts when entered into during 2002 (2)	—	—	—
Change in fair value due to changes in valuation techniques (3)	—	—	—
Change in fair value attributable to market prices and other market changes	26,124	1,715	27,839
Fair value of contracts as of June 30, 2002	$ 39,009	$112,016	$151,025

(1) Contracts settled during the six months ended June 30, 2002 include those contracts that were open in 2001 but settled during the six months ended June 30, 2002 as well as new contracts entered into and settled during the six months ended June 30, 2002. Amount represents realized gains associated with these settled transactions.
(2) Avista Energy has not entered into any origination transactions during 2002 in which dealer profit or mark-to-market gain or loss was recorded at inception.
(3) During the six months ended June 30, 2002, Avista Energy did not experience a change in fair value as a result of changes in valuation techniques.
(4) Change in unrealized gain (loss) does not reconcile to totals for the Energy Trading and Marketing segment due to an intercompany elimination between Avista Energy and Avista Power related to Avista Energy's contract for the output from a generation plant that is 49 percent owned by Avista Power.

The following discloses summarized information with respect to valuation techniques and contractual maturities of Avista Energy's energy commodity contracts outstanding as of June 30, 2002 (dollars in thousands):

	Less than one year	Greater than one and less than three years	Greater than three and less than five years	Greater than five years	Total
Natural gas assets (liabilities), net					
Prices from other external sources (1)	$11,809	$12,464	$ —	$ —	$ 24,273
Fair value based on valuation models (2)	14,941	(2,287)	1,196	886	14,736
Total natural gas assets (liabilities), net	$26,750	$10,177	$1,196	$ 886	$ 39,009
Electric assets (liabilities), net					
Prices from other external sources (1)	$75,205	$37,538	$ —	$ —	$112,743
Fair value based on valuation models (3)	(5,589)	683	6,372	(2,193)	(727)
Total electric assets (liabilities), net	$69,616	$38,221	$6,372	$(2,193)	$112,016

(1) The fair value is determined based upon actively traded, "over-the-counter" market quotes received from third party brokers. For natural gas assets and liabilities, these market quotes are generally available through three years. For electric assets and liabilities, these market quotes are generally available through two years.
(2) Represents contracts for delivery at basis locations not actively traded in the "over-the-counter" markets. In addition, this includes all contracts with a delivery period greater than three years, for which active quotes are not available. These internally developed market curves are based upon published New York Mercantile Exchange prices through seven years, as well as basis spreads using historical and broker estimates. After seven years, an escalation is used to estimate the valuation.
(3) Represents contracts for delivery at basis locations not actively traded in the "over-the-counter" markets. In addition, this includes all contracts with a delivery period greater than two years, for which active quotes are not available. These internally developed market curves are determined using a production cost model with inputs for assumptions related to power prices (including, without limitation, natural gas prices, generation on line, transmission constraints, future demand and weather).

Avista Energy conducts frequent stress tests on the valuation of its portfolio. By changing the input assumptions to the internally developed market curves, these stress tests attempt to capture Avista Energy's sensitivity to changes in portfolio valuation. These stress tests indicate that, for the portfolio valued under internally developed market curves, the valuations can be reasonably certain to be within a 20 percent range, upwards or downwards, of the reported values listed above.

Avista Power is a 49 percent owner of a 270 MW natural gas-fired combustion turbine plant in Rathdrum, Idaho, which commenced commercial operation in September 2001. All of the output from this plant is contracted to Avista Energy for 25 years. In addition, Avista Power and co-owner Mirant are in the process of constructing the 280 MW Coyote Springs 2 Power Plant. Upon the completion of the plant, Avista Power's 50 percent ownership interest will be transferred to Avista Corp. for inclusion in Avista Utilities' power generation resource portfolio. On May 6, 2002, a transformer at the Coyote Springs 2 Power Plant caught fire resulting in the release of an estimated 17,000 gallons of coolant oil. The damaged transformer has delayed the scheduled completion of the project from the third quarter of 2002 to the fourth quarter of 2002. See "Results of Operations: Avista Utilities" for further information.

Information and Technology

The Information and Technology line of business includes the results of Avista Advantage and Avista Labs (including its 70 percent equity interest in H2fuel, LLC). Avista Labs continues discussions with selected companies in its search for a strategic partner while moving forward with developing its products. Avista Advantage remains focused on growing revenue, improving margins, reducing fixed and variable costs and client satisfaction.

Three months ended June 30, 2002 compared to the three months ended June 30, 2001

Information and Technology's net loss was $4.3 million for the three months ended June 30, 2002 compared to a net loss of $5.7 million for the three months ended June 30, 2001. Operating revenues for this line of business increased $0.9 million and operating expenses decreased $1.7 million, respectively, as compared to the three months ended June 30, 2001. Avista Advantage accounted for the increase in revenues primarily due to the expansion of its customer base. The decrease in operating expenses primarily reflects reduced expenses for Avista Advantage due to improved efficiencies and a focus on reducing operating expenses.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

Information and Technology's net loss was $7.1 million for the six months ended June 30, 2002 compared to a net loss of $10.7 million for the six months ended June 30, 2001. Operating revenues for this line of business increased $1.9 million and operating expenses decreased $2.9 million, respectively, as compared to the six months ended June 30, 2001. Avista Advantage accounted for the increase in revenues primarily due to the expansion of its customer base. The decrease in operating expenses primarily reflects reduced expenses for Avista Advantage due to improved efficiencies and a focus on reducing operating expenses. Certain non-recurring items in both periods also contributed to the decrease in operating expenses.

Improved results for this line of business also reflects the $0.6 million recovery of a previously recognized allowance for investment loss at Avista Advantage.

Other

The Other line of business includes Avista Ventures, Avista Capital (parent company only amounts), Pentzer and several other minor subsidiaries.

Three months ended June 30, 2002 compared to the three months ended June 30, 2001

The net loss from this line of business was $6.9 million for the three months ended June 30, 2002, compared to a net loss of $2.0 million for the three months ended June 30, 2001. The increase in the net loss is primarily due to a decrease in income from operations and partially due to an increase in interest expense as well as losses on the disposition of assets. Operating revenues from this line of business decreased $0.1 million and operating expenses increased $4.4 million, respectively, for the three months ended June 30, 2002 as compared to the three months ended June 30, 2001. The decrease in income from operations is primarily due to an increase in litigation costs for Pentzer.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

The net loss before cumulative effect of accounting change from this line of business was $10.0 million for the six months ended June 30, 2002, compared to a net loss of $2.7 million for the six months ended June 30, 2001. The increase in the net loss is primarily due to a decrease in income from operations and partially due to an increase in interest expense as well as losses on the disposition of assets. Operating revenues from this line of business decreased $2.8 million and operating expenses increased $3.3 million, respectively, for the six months ended June 30, 2002 as compared to the six months ended June 30, 2001. The decrease in income from operations is primarily due to a decrease in income from Advanced Manufacturing and Development, a subsidiary of Avista Ventures and an increase in litigation costs for Pentzer.

Discontinued Operations

In September 2001, the Company reached a decision that it would dispose of substantially all of the assets of Avista Communications. The divestiture is expected to be completed by the end of 2002. In October 2001, minority shareholders of Avista Communications acquired ownership of its Montana and Wyoming operations as well as its dial-up internet access operations in Spokane, Washington and Coeur d'Alene, Idaho. In December 2001, Avista Communications completed the sale of the assets and customer accounts of its Yakima and Bellingham, Washington operations to Advanced Telcom Group, Inc. In April 2002, Avista Communications completed the transfer of voice and integrated services customer accounts in Spokane, Washington and Coeur d'Alene, Idaho to certain subsidiaries of XO Communications, Inc. In August 2002, the Company has entered into an agreement to dispose of substantially all of the remaining assets of Avista Communications.

Three months ended June 30, 2002 compared to the three months ended June 30, 2001

Net income for the three months ended June 30, 2002 was $1.0 million, compared to a net loss of $3.3 million for the three months ended June 30, 2001. Net income for the three months ended June 30, 2002 is primarily due to the favorable settlement of a lawsuit during the period.

Six months ended June 30, 2002 compared to the six months ended June 30, 2001

Net income for the six months ended June 30, 2002 was $0.7 million, compared to a net loss of $6.0 million for the six months ended June 30, 2001. Net income for the six months ended June 30, 2002 is primarily due to the favorable settlement of a lawsuit during the period.

Earnings Outlook

The Company expects to post consolidated earnings of between $0.70 and $0.80 per diluted share for the full year 2002 and consolidated earnings are expected to exceed $1.10 per diluted share in 2003. These expectations are based on current streamflow and weather projections, anticipated purchased power prices and the continued ability to defer and recover excess purchased power costs. The projection for 2003 anticipates that the Coyote Springs 2 Power Plant and two small generation projects will come on-line by the end of 2002 and the Idaho PCA surcharge will be renewed in October 2002. These projections are subject to a variety of risks and uncertainties that could cause actual results to differ from this estimate, including those described above and listed under "Safe Harbor for Forward Looking Statements." See "Liquidity and Capital Resources" for additional information.

Liquidity and Capital Resources

Review of Cash Flow Statement

Continuing Operating Activities Net cash provided by continuing operating activities was $193.0 million for the six months ended June 30, 2002 compared to net cash provided by continuing operating activities of $25.8 million for the six months ended June 30, 2001. The primary reason for the increase in net cash provided by continuing operating activities was power and natural gas cost amortization, net of deferrals and interest, of $81.7 million for the six months ended June 30, 2002 compared to net deferrals of $141.1 million for the six months ended June 30, 2001. This was primarily due to increased retail rates approved by the respective utility commissions to recover increased deferred power supply and natural gas costs incurred during 2000 and 2001. Net power and natural gas cost amortizations and deferrals are non-cash expenses that are added back or deducted from net income to determine net cash flows from operating activities using the indirect method. Net cash provided by working capital components was $52.2 million for the six months ended June 30, 2002, an increase from $27.0 million for the six months ended June 30, 2001. Changes in commodity prices and energy transactions that affected both Avista Utilities and Avista Energy were primarily responsible for the large changes in various working capital components, such as accounts receivable and accounts payable and other accrued liabilities. Significant changes in non-cash items also included a $51.2 million change in energy commodity assets and liabilities, primarily related to Avista Energy as well as a $81.1 million decrease in the provision for deferred income taxes.

Continuing Investing Activities Net cash used in continuing investing activities was $32.4 million for the six months ended June 30, 2002 compared to $153.6 million for the six months ended June 30, 2001. This decrease was primarily due to a decrease in other capital expenditures. Other capital expenditures during the six months ended June 30, 2001 were primarily for the construction of the Coyote Springs 2 Power Plant and the purchase of turbines by Avista Power that were planned to be used in a non-regulated generation project. Utility property construction expenditures also decreased to $32.9 million for the six months ended June 30, 2002 compared to $55.4 million for the six months ended June 30, 2001.

Continuing Financing Activities Net cash used in continuing financing activities was $189.5 million for the six months ended June 30, 2002 compared to net cash provided of $201.5 million for the six months ended June 30, 2001. During the six months ended June 30, 2002 short-term borrowings decreased $0.6 million and the Company repurchased $178.8 million of long-term debt scheduled to mature in future years. The overall decrease in long-term debt during the six months ended June 30, 2002 reflects increased cash flows from operations primarily related to the recovery of deferred power and natural gas costs that was partially used to repurchase long-term debt.

In April 2001, the Company issued $400.0 million of 9.75 percent Senior Notes due in 2008. During the three months ended June 30, 2001 short-term borrowings decreased $163.2 million and $25.0 million of Medium-Term Notes matured. The overall increase in borrowings during the six months ended June 30, 2001 reflected increased cash needs to fund capital expenditures and increased power and natural gas costs.

Discontinued Operations Net cash provided by discontinued operations was $0.1 million for the six months ended June 30, 2002 compared to $21.2 million of net cash used in discontinued operations for the six months ended June 30, 2001. The decrease was primarily due to a decrease in operating costs and capital expenditures by Avista Communications as the Company decided to dispose of the operations.

Overall Liquidity

During the second half of 2000 and the year 2001, the Company’s cash outlays for purchased power exceeded the related amounts paid to the Company by its retail customers. This condition was primarily due to the reduced availability of hydroelectric resources compared to historical periods, increased prices in the wholesale market and increased volumes purchased to meet retail customer demand. In addition to operating expenses, the Company has continuing commitments for capital expenditures for construction, improvement and maintenance of facilities. In 2001, the Company incurred substantial levels of indebtedness, both short and long-term, to finance these requirements and to otherwise maintain adequate levels of working capital. Debt service is another significant cash requirement.

The general electric rate case order issued by the WUTC in June 2002 should allow the Company to continue to improve its liquidity. The general rate case order provides for the restructuring and continuation of previously approved rate increases totaling 31.2 percent (a 25 percent temporary surcharge approved in September 2001 and a 6.2 percent increase approved in March 2002). The general increase to base retail rates is 19.3 percent (or $45.7 million

in annual revenues) and the remaining 11.9 percent represents the continued recovery of deferred power costs over a period currently projected to extend through 2007. Additionally, the Company has PCA surcharges totaling 19.4 percent in place in Idaho. See further description of issues related to deferred power costs and the Company's general electric rate case in the section "Avista Utilities — Regulatory Matters."

In addition to the rate increases described above, the Company has taken other steps to improve its liquidity. The Company completed the sale of 50 percent of its interest in the Coyote Springs 2 project to Mirant during the fourth quarter of 2001. The Company received $53.6 million in proceeds from Mirant. In addition, Mirant is also providing the majority of the remaining funds to complete the project. The Company also sold three turbines owned by Avista Power with $22.7 million of proceeds received during the fourth quarter of 2001 and $22.7 million of proceeds received during 2002. Additionally, the Company significantly reduced capital expenditures for 2002 from the amount originally budgeted. The Company's disposal of Avista Communications reduces future cash investments in the Information and Technology line of business.

These measures are largely related to the Company's efforts to improve cash flows and should provide the Company the ability to maintain access to adequate levels of credit with its banks.

If Avista Utilities' purchased power and natural gas costs were to exceed the levels recovered from retail customers, its cash flows would be negatively affected. Factors that could cause purchased power costs to return to levels higher than recovered from customers include, but are not limited to, a return to high prices in wholesale markets and high volumes of energy purchased in the wholesale markets. Factors beyond the Company's control that could result in high volumes of energy purchased include, but are not limited to, increases in demand (either due to weather or customer growth), low availability of hydroelectric resources, outages at generating facilities and failure of third parties to deliver on energy or capacity contracts.

Capital Resources

The Company has incurred significant indebtedness to support capital expenditures, to fund power and natural gas costs that were in excess of the amount recovered currently through rates and to maintain working capital. As of June 30, 2002, the Company had total debt outstanding of $1,072.2 million, a decrease from $1,252.6 million as of December 31, 2001. The decrease was primarily due to the repurchase of long-term debt. The Company needs to finance capital expenditures and obtain additional working capital from time to time. The cash requirements to service the indebtedness, both short-term and long-term, could reduce the amount of cash flow available to fund working capital, purchased power and natural gas costs, capital expenditures, dividends and other corporate requirements.

The Company funds capital expenditures with a combination of internally generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates depending on a variety of factors. Cash provided by utility operating activities and cash generated by Avista Energy is expected to be the Company's primary source of funds for operating needs, dividends and capital expenditures in 2002 and 2003. In 2002 and subsequent years, the Company expects cash flows from operations to improve primarily from the recovery of deferred power and natural gas costs and from the electric rate increase approved by the WUTC. This should allow the Company to continue to reduce total debt outstanding. Capital expenditures are expected to be funded either with cash flows from operations or on an interim basis with short-term borrowings.

On May 21, 2002, the Company entered into a committed line of credit with various banks in the total amount of $225.0 million. The committed line of credit expires on May 20, 2003 and replaces the $220.0 million committed line of credit that expired on May 29, 2002. As of June 30, 2002, the Company had borrowed $55.0 million under this committed line of credit. Under this committed line of credit, the Company may have up to $50.0 million in letters of credit outstanding. As of June 30, 2002, there were $15.1 million of letters of credit outstanding. The Company's obligation under the committed line of credit is secured with First Mortgage Bonds in the amount of the commitment.

The committed line of credit agreement contains customary covenants and default provisions, including covenants not to permit the ratio of "consolidated total debt" to "consolidated total capitalization" of Avista Corp. to be, at the end of any fiscal quarter, greater than 65 percent. As of June 30, 2002, the ratio was in compliance with this covenant at 55.3 percent. The committed line of credit also has a covenant requiring the ratio of "earnings before interest, taxes, depreciation and amortization" to "interest expense" of Avista Utilities for the three-fiscal quarter period ending June 30, 2002 to be greater than 1.6 to 1. As of June 30, 2002, the ratio was in compliance with this covenant at 2.06 to 1.

Any default on its committed line of credit or other financing arrangements could result in cross-defaults to other agreements and could induce vendors and other counterparties to demand collateral. In the event of a default, it would be difficult for the Company to obtain financing on any reasonable terms to pay creditors or fund operations, and the Company would likely be prohibited from paying dividends on its common stock. As of June 30, 2002 Avista Corp. was in compliance with the covenants of all of its financing agreements.

As part of its ongoing cash management practices and operations, Avista Corp. may, at any time, have short-term notes receivable and payable with Avista Capital. In turn, Avista Capital may also have short-term notes receivable and payable with its subsidiaries. As of June 30, 2002, Avista Corp. had short-term notes receivable of $150.9 million from Avista Capital of which $108.5 million of the receivables represents loans to Avista Power, primarily for the Coyote Springs 2 project and the acquisition of a turbine in 2001.

During the six months ended June 30, 2002, the Company repurchased $125.1 million of Medium-Term Notes scheduled to mature in 2003, $43.8 million of Unsecured Senior Notes scheduled to mature in 2008 and $10.0 million of Medium-Term Notes scheduled to mature in 2028. Subsequent to June 30, 2002, the Company has repurchased $11.8 million of Unsecured Senior Notes scheduled to mature in 2008 and $1.7 million of Medium-Term Notes scheduled to mature in 2003. Total net premiums paid to repurchase debt were $9.6 million and are being amortized over the average maturity period of outstanding debt.

The Mortgage and Deed of Trust securing the Company's First Mortgage Bonds contains limitations on the amount of First Mortgage Bonds which may be issued based on, among other things, a 70 percent debt-to-collateral ratio and a 2.00 to 1 net earnings to First Mortgage Bond interest ratio. Under various financing agreements, the Company is also restricted as to the amount of additional First Mortgage Bonds that it can issue. As of June 30, 2002, the Company could issue $146.7 million of additional First Mortgage Bonds under the most restrictive of these financing agreements.

In July 2001, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission for the purpose of issuing up to 3.7 million shares of common stock. No common stock has been issued and the Company currently does not have any plans to issue common stock under this registration statement.

Off-Balance Sheet Arrangements

Avista Receivables Corp. (ARC), formerly known as WWP Receivables Corp., is a wholly owned, bankruptcy-remote subsidiary of the Company formed in 1997 for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. On May 29, 2002, ARC and the Company entered into a three-year agreement whereby ARC can sell without recourse, on a revolving basis, up to $100.0 million of those receivables. ARC is obligated to pay fees that approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. As of June 30, 2002, $57.0 million in receivables were sold pursuant to the agreement.

WP Funding LP is an entity that was formed for the purpose of acquiring the Company's natural gas-fired combustion turbine generating facility in Rathdrum, Idaho (Rathdrum CT). WP Funding LP purchased the Rathdrum CT from the Company with funds provided by unrelated investors of which 97 percent represented debt and 3 percent represented equity. The Company operates the Rathdrum CT and leases it from WP Funding LP and currently makes lease payments of $4.5 million per year. The total amount of WP Funding LP debt outstanding that is not included on the Company's balance sheet was $54.5 million as of June 30, 2002. The lease term expires in February 2020; however, the current debt matures in October 2005 and will need to be refinanced at that time. The FASB has issued an Exposure Draft relating to the identification of, and accounting for, special-purpose entities such as WP Funding LP. The current Exposure Draft would require the Company to begin consolidating WP Funding LP in 2003.

Total Company Capitalization

The Company's total common equity increased $11.3 million during the six months ended June 30, 2002 to $731.4 million as of June 30, 2002. This increase is primarily due to net income and the issuance of common stock through stock compensation plans, the employee 401(k) plan and the Dividend Reinvestment Plan, partially offset by dividends. The Company's consolidated capital structure, including the current portion of long-term debt and short-term borrowings as of June 30, 2002, was 55.3 percent debt, 7.0 percent preferred securities and 37.7 percent common equity, compared to 59.4 percent debt, 6.4 percent preferred securities and 34.2 percent common equity as of December 31, 2001. The Company has a target capital structure of 50 percent debt and 50 percent preferred and

common equity. The Company plans to achieve this capital structure primarily with the reduction of total debt and the retention of net earnings.

Credit Ratings

The following table summarizes the Company's current credit ratings:

	Standard & Poor's	Moody's	Fitch, Inc.
Avista Corporation			
Corporate/Issuer rating	BB+	Ba1	BB+
Senior secured debt	BBB-	Baa3	BBB-
Senior unsecured debt	BB+	Ba1	BB+
Preferred stock	BB-	Ba3	BB
Avista Capital I*			
Preferred Trust Securities	BB-	Ba2	BB+
Avista Capital II*			
Preferred Trust Securities	BB-	Ba2	BB
Rating outlook	Negative	Negative	Stable

* Only assets are subordinated debentures of Avista Corporation

These security ratings are not recommendations to buy, sell or hold securities. The ratings are subject to change or withdrawal at any time by the respective credit rating agencies. Each credit rating should be evaluated independently of any other rating.

Avista Energy Operations

Avista Energy funds its ongoing operations with a combination of internally generated cash and a bank line of credit. On June 28, 2002 Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, renewed their credit agreement with a group of banks in the aggregate amount of $110.0 million expiring June 30, 2003. This credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the lenders' sole discretion. This agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. This facility is guaranteed by Avista Capital and secured by Avista Energy's assets. The maximum amount of credit extended by the banks for the issuance of letters of credit is the subscribed amount of the facility less the amount of outstanding cash advances, if any. The maximum amount of credit extended by the banks for cash advances is $30 million. As of June 30, 2002, there were no cash advances (demand notes payable) outstanding and letters of credit outstanding under the facility totaled $30.4 million.

The Avista Energy credit agreement contains customary covenants and default provisions, including covenants to maintain "minimum net working capital" and "minimum net worth" as well as a covenant limiting the amount of indebtedness which the co-borrowers may incur.

Avista Capital provides guarantees for Avista Energy's credit agreement and, in the course of business, may provide guarantees to other parties with whom Avista Energy may be doing business. Avista Capital had $60.9 million of such guarantees outstanding as of June 30, 2002. Avista Capital's investment in Avista Energy totaled $231.0 million as of June 30, 2002.

Periodically, Avista Capital may loan funds to Avista Energy to support its short-term cash and collateral needs. These loans are subordinate to any obligations of Avista Energy to the banks under the credit agreements. As of June 30, 2002 there were no loans between Avista Capital and Avista Energy outstanding.

Avista Energy manages collateral requirements with counterparties by providing letters of credit, providing guarantees from Avista Capital and offsetting transactions with counterparties. In addition to the letters of credit and other items included above, cash deposited with counterparties totaled $1.8 million as of June 30, 2002, and is included in the consolidated balance sheet in prepayments and other current assets. Avista Energy held cash deposits from other parties in the amount of $23.1 million as of June 30, 2002, and such amounts are subject to refund if conditions warrant because of continuing portfolio value fluctuations with those parties.

As of June 30, 2002, Avista Energy had $132.8 million in cash, including the $23.1 million of cash deposits from other parties. Covenants in Avista Energy's credit agreement restrict the amount of cash dividends that can be distributed to Avista Capital and ultimately to Avista Corp. During the six months ended June 30, 2002, in accordance with the modified covenants of its credit agreement, Avista Energy paid $81.1 million in dividends to Avista Capital. Avista Capital used the cash proceeds to pay cash dividends and repay debt to Avista Corp.

Contractual Obligations

The Company's future contractual obligations have not changed materially from the amounts disclosed in the 2001 Form 10-K with the following exceptions:

During the six months ended June 30, 2002 the Company repurchased $125.1 million of Medium-Term Notes scheduled to mature in 2003, $43.8 million of Unsecured Senior Notes scheduled to mature in 2008 and $10.0 million of Medium-Term Notes scheduled to mature in 2028. Subsequent to June 30, 2002, the Company has repurchased $11.8 million of Unsecured Senior Notes scheduled to mature in 2008 and $1.7 million of Medium-Term Notes scheduled to mature in 2003.

Short-term debt of Avista Utilities decreased from $130.0 million as of December 31, 2001 to $112.0 million as of June 30, 2002. The amount outstanding as of June 30, 2002 was $55.0 million under the Company's $225.0 million line of credit and $57.0 million under a $100.0 million accounts receivable financing facility. Both of these credit facilities were entered into during May 2002 and replace previous agreements that expired.

During the six months ended June 30, 2002 Avista Utilities entered into power purchase contracts in the total amount of $54.2 million for the period 2007 through 2010.

Avista Energy's contractual commitments to purchase energy commodities in future periods were as follows as of June 30, 2002 (dollars in millions):

	Less than one year	Greater than one and less than three years	Greater than three and less than five years	Greater than five years	Total
Physical energy contracts	$ 763	$577	$284	$357	$1,981
Financial energy contracts	984	238	—	—	1,222
Total	$1,747	$815	$284	$357	$3,203

Avista Energy also has sales commitments related to energy commodities in future periods.

Other Commercial Commitments

The following table summarizes the Company's other commercial commitments outstanding as of June 30, 2002 (dollars in millions):

	Commitment Outstanding	Commitment Expiration
Letters of credit(1)	$48	2003
Guarantees(2)	$61	—

(1) Represents letters of credit issued under the $110.0 million credit agreement at Avista Energy and the $50.0 million available for letters of credit under Avista Corp.'s $225.0 million line of credit. As of June 30, 2002, letters of credit totaled $30.4 million at Avista Energy and $15.1 million at Avista Corp. and primarily relate to energy purchase contracts. Also includes $3.0 million of other letters of credit that are backed by cash deposits.

(2) The face value of all performance guarantees issued by Avista Capital for energy trading contracts at Avista Energy was approximately $771.7 million as of June 30, 2002. At any point in time, Avista Capital is only liable for the outstanding portion of the guarantee, which was $60.9 million as of June 30, 2002. Most guarantees do not have set expiration dates; however, either party may terminate the guarantee at any time with minimal written notice.

As of June 30, 2002, Avista Corp. did not have any commitments outstanding with equity triggers. When the Company's corporate credit rating was reduced to below investment grade in October 2001, additional collateral requirements due to rating triggers were met and further requirements are not currently anticipated. The Company

does not expect any material impact from rating triggers as any remaining triggers primarily relate to changes in pricing under certain financing agreements.

Additional Financial Data

As of June 30, 2002, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was $984.6 million. Of such amount, $673.0 million represents long-term unsecured and unsubordinated indebtedness of the Company, and $313.5 million represents secured indebtedness of the Company. The unamortized debt discount was $2.3 million. The subsidiaries had long-term debt of $0.5 million. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities. In addition to long-term secured indebtedness, $55.0 million of the Company's short-term debt outstanding under or backed by its $225.0 million committed line of credit is secured indebtedness.

Future Outlook

Business Strategy

Avista Utilities seeks to maintain a strong, low-cost and efficient electric and natural gas utility business focused on providing reliable, high quality service to its customers. The utility business is expected to grow modestly, consistent with historical trends. Expansion will primarily result from economic growth in its service territory. It is Avista Utilities' strategy to own or control a sufficient amount of resources to meet its retail and wholesale electric requirements on an average annual basis. Avista Energy works primarily within the WECC and continues to seek to optimize its asset-backed trading base around gas storage and transportation and long-term electric supply and transmission contracts. Avista Energy's marketing efforts are driven by its base of knowledge and experience in the operation of both electric energy and natural gas physical systems in the WECC, as well as its relationship-focused approach with its customers. During 2001, the Company decided that Avista Power would no longer pursue the development of additional non-regulated generation plants. Avista Labs continues discussions with selected companies in its search for a strategic partner while moving forward with developing its products. Avista Advantage remains focused on growing revenue, improving margins, reducing fixed and variable costs and client satisfaction. The Company plans to dispose of assets and phase out of operations in the Other business segment that are not related to its energy operations.

Business Risk

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. See further discussion of risks at "Safe Harbor for Forward-Looking Statements."

As described under "Avista Corp. Lines of Business," hydroelectric conditions in 2001 were significantly below normal, leading to greater than normal reliance on purchased power. The earnings impact of these factors is mitigated by regulatory mechanisms that are intended to defer increased power supply costs for recovery in future periods. In order to recover deferred power costs, the WUTC approved a temporary 25 percent electric rate surcharge to Washington customers in September 2001 and the IPUC approved a total of a 19.4 percent PCA surcharge to Idaho customers in October 2001. In December 2001, the Company filed a general rate case with the WUTC. In March 2002, the WUTC issued an order approving the prudence and recoverability of 90 percent (or $196 million) of deferred power supply costs incurred by the Company during the period from July 1, 2000 through December 31, 2001. In June 2002, the WUTC issued an order with respect to the Company's general rate case filing. The order continues and restructures rate increases totaling 31.2 percent previously approved by the WUTC. The general increase to base rates is 19.3 percent and the remaining 11.9 percent will represent the continued recovery of deferred power costs. Avista Utilities is not able to fully predict how the combination of energy resources, energy loads, prices, rate recovery and other factors will ultimately drive deferred power costs and the timing of recovery of these costs in future periods. Current estimates and projections by the Company indicate that deferred power costs would be recovered by 2007. See further information at "Avista Utilities — Regulatory Matters."

Challenges facing Avista Utilities' electric operations include, among other things, the timing of the recovery of deferred power and natural gas costs, changes in the availability of and volatility in the prices of power and fuel, generating unit availability, legislative and governmental regulations, and weather conditions. Avista Utilities believes it faces minimal risk for stranded utility assets resulting from deregulation, primarily due to its relatively low-

cost generation portfolio. In a deregulated environment, however, evolving technologies that provide alternate energy supplies could affect the market price of power, and certain generating assets could have capital and operating costs above the prevailing market prices.

Natural gas commodity prices increased dramatically during 2000 and remained at relatively high levels during the first half of 2001 before declining in the second half of the year. Market prices for natural gas continue to be competitive compared to alternative fuel sources for residential, commercial and industrial customers. Avista Utilities believes that natural gas should sustain its market advantage based on the levels of existing reserves and potential natural gas development in the future. Growth has occurred in the natural gas business in recent years due to increased demand for natural gas in new construction, as well as conversions from electric space and water heating to natural gas. Challenges facing Avista Utilities' natural gas operations include, among other things, volatility in the price of natural gas, changes in the availability of natural gas, legislative and governmental regulations, weather conditions, conservation and the timing for recovery of increased commodity costs. Avista Utilities' natural gas business also faces the potential for large natural gas customers to by-pass its natural gas system. To reduce the potential for such by-pass, Avista Utilities prices its natural gas services, including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of individual contracts. Avista Utilities has long-term transportation contracts with seven of its largest industrial customers, which reduces the risk of these customers by-passing the system in the foreseeable future.

Avista Energy trades electricity and natural gas, along with derivative commodity instruments, including futures, options, swaps and other contractual arrangements. As a result of these trading activities, Avista Energy is subject to various risks, including commodity price risk and credit risk, as well as possible new risks resulting from the recent imposition of market controls by federal and state agencies. The FERC is conducting separate proceedings related to market controls within California and within the Pacific Northwest that include proposals by certain parties to retroactively impose price caps. As a result, certain parties have asserted claims for significant refunds from Avista Energy and lesser refunds from Avista Utilities which could result in liabilities for refunding revenues recognized in prior periods. Avista Energy and Avista Utilities have joined other parties in vigorously opposing these proposals. If retroactive price caps were imposed, Avista Energy and Avista Utilities could assert offsetting claims for certain transactions.

In connection with matching loads and resources, Avista Utilities engages in wholesale sales and purchases of electric capacity and energy, and, accordingly, is also subject to commodity price risk, credit risk and other risks associated with these activities.

Commodity Price Risk. Both Avista Utilities and Avista Energy are subject to energy commodity price risk. The price of power in wholesale markets is affected primarily by production costs and by other factors including streamflows, the availability of hydroelectric and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil to operate thermal generating units. Any combination of these factors that resulted in a shortage of energy generally caused the market price of power to move upward. As discussed above and in the section "Western Power Market Issues" the FERC imposed a price mitigation plan in the western United States in June 2001.

Price risk is, in general, the risk of fluctuation in the market price of the commodity needed, held or traded. In the case of electricity, prices can be affected by the adequacy of generating reserve margins, scheduled and unscheduled outages of generating facilities, availability of streamflows for hydroelectric generation, the price of thermal generating plant fuel, and disruptions or constraints to transmission facilities. Demand changes (caused by variations in the weather and other factors) can also affect market prices. Price risk also includes the risk of fluctuation in the market price of associated derivative commodity instruments (such as options and forward contracts). Price risk may also be influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity. Wholesale market prices for power and natural gas in the western United States and western Canada were significantly higher in 2000 and the first half of 2001 than at any time in history, with unprecedented levels of volatility. Prices and volatility decreased considerably during the second half of 2001 and the first half of 2002 relative to 2000 and the first half of 2001.

Credit Risk. Credit risk relates to the risk of loss that Avista Utilities and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy and make financial settlements. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances that relate to other market participants that have a direct or indirect relationship with such counterparty. Avista Utilities and Avista Energy seek to mitigate credit risk

by applying specific eligibility criteria to existing and prospective counterparties and by actively monitoring current credit exposures. However, despite mitigation efforts, defaults by counterparties periodically occur. Avista Energy experienced payment receipt defaults from certain parties impacted by the California energy crisis. Avista Energy and Avista Corp. (through the Avista Utilities division) have engaged in physical and financial transactions with Enron and certain of its affiliates and experienced disruptions to forward contract commitments as a result of Enron's December 2001 bankruptcy. The Enron bankruptcy and other changes, uncertainties and regulatory proceedings has resulted in reduced liquidity in the energy markets. See "Enron Corporation" in Note 9 of Notes to Consolidated Financial Statements for more information.

A trend of declining credit quality has been evident in 2002, particularly in the energy industry. Rating agencies have downgraded the credit ratings of several of the counterparties of Avista Energy and Avista Utilities. Avista Energy and Avista Utilities regularly evaluate counterparties' credit exposure for future settlements and delivery obligations. Avista Energy and Avista Utilities have taken a conservative position by reducing or eliminating open (unsecured) credit limits for parties perceived to have increased default risk. Counterparty collateral is used to offset the Company's credit risk where unsettled net positions and future obligations by counterparties to pay Avista Utilities and/or Avista Energy or deliver to Avista Utilities and/or Avista Energy warrant.

Credit risk also involves the exposure that counterparties perceive related to performance by Avista Utilities and Avista Energy to perform deliveries and settlement of energy transactions. These counterparties may seek assurance of performance in the form of letters of credit, prepayment or cash deposits, and, in the case of Avista Energy, parent company performance guarantees. In periods of price volatility, the level of exposure can change significantly, with the result that sudden and significant demands may be made against the Company's capital resource reserves (credit facilities and cash). Avista Utilities and Avista Energy actively monitor the exposure to possible collateral calls and take steps to minimize capital requirements.

Other Operating Risks. In addition to commodity price risk, Avista Utilities' commodity positions are subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality specifications, forced outages at generating plants and disruptions to information systems and other administrative tools required for normal operations. Avista Utilities also has exposure to weather conditions and natural disasters that can cause physical damage to property, requiring immediate repairs to restore utility service.

Interest Rate Risk. The Company is subject to the risk of fluctuating interest rates in the normal course of business. The Company manages interest rate risk by taking advantage of market conditions when timing the issuance of long-term financings and optional debt redemptions and through the use of fixed rate long-term debt with varying maturities. The interest rate on $40 million of Company-Obligated Mandatorily Redeemable Preferred Trust Securities — Series B adjusts quarterly, reflecting current market conditions. In order to lower interest payments during a period of declining interest rates, Avista Corp. has entered into an interest rate swap agreement, effective July 17, 2002, that terminates on June 1, 2008. This interest rate swap agreement effectively changes the interest rate on $25 million of Unsecured Senior Notes from a fixed rate of 9.75 percent to a variable rate based on LIBOR.

The Company's credit ratings were downgraded during the fourth quarter of 2001 resulting in an overall corporate credit rating that is below investment grade. These downgrades increased the cost of debt and other securities going forward and may affect the Company's ability to issue debt and equity securities at reasonable interest rates. The downgrades also created requirements for the Company to provide letters of credit and/or collateral to certain parties.

Foreign Currency Risk. The Company has investments in Canadian companies through Avista Energy Canada, Ltd. and Copac Management, Inc. The Company's exposure to foreign currency risk and other foreign operations risk was immaterial to the Company's consolidated results of operations and financial position during the six months ended June 30, 2002 and is not expected to change materially in the near future.

Risk Management

Risk Policies and Oversight. Avista Utilities and Avista Energy use a variety of techniques to manage risks. The Company has risk management oversight for these risks for each area of the Company's energy-related business. The Company has a Risk Management Committee, separate from the units that create such risk exposure and that is overseen by the Audit Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures. Avista Utilities and Avista Energy have policies and procedures in place to manage the risks, both quantitative and qualitative, inherent in their businesses. The Company's Risk Management Committee reviews the status of risk exposures through regular reports and meetings and it monitors compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in

commodity prices, generating capacity, customer loads, and other factors may result in losses in earnings, cash flows and/or fair values.

Quantitative Risk Measurements. Avista Utilities has volume limits for its imbalance between projected loads and resources. Normal operations result in seasonal mismatches between power loads and available resources. Avista Utilities is able to vary the operation of its generating resources to help match hourly, daily and weekly load fluctuations. Avista Utilities uses the wholesale power markets to sell projected resource surpluses and obtain resources when deficits are projected in the 24-month forward planning horizon. Any imbalance is required to remain within limits, or management action or decisions are triggered to address larger imbalance situations. Volume limits for forward periods are based on monthly and quarterly averages that may vary materially from the actual load and resource variations within any given month or operating day. Future projections of resources are updated as forecasted streamflows and other factors differ from prior estimates. Forward power markets may be illiquid, and market products available may not match Avista Utilities' desired transaction size and shape. Therefore, open imbalance positions exist at any given time.

Avista Energy measures the risk in its power and natural gas portfolio daily utilizing a Value-at-Risk (VAR) model, monitoring its risk in comparison to established thresholds. VAR measures the expected portfolio loss under hypothetical adverse price movements, over a given time interval within a given confidence level. Avista Energy also measures its open positions in terms of volumes at each delivery location for each forward time period. The extent of open positions is included in the risk management policy and is measured with stress tests and VAR modeling.

The VAR computations are based on a historical simulation, utilizing price movements over a specified period to simulate forward price curves in the energy markets to estimate the potential unfavorable impact of price movement in the portfolio of transactions scheduled to settle within the following eight calendar quarters. The quantification of market risk using VAR provides a consistent measure of risk across Avista Energy's continually changing portfolio. VAR represents an estimate of reasonably possible net losses in earnings that would be recognized on its portfolio assuming hypothetical movements in future market rates and is not necessarily indicative of actual results that may occur.

Avista Energy's VAR computations utilize several key assumptions, including a 95 percent confidence level for the resultant price movement and holding periods of one and three days. The calculation includes derivative commodity instruments held for trading purposes and excludes the effects of embedded physical options in the trading portfolio.

As of June 30, 2002, Avista Energy's estimated potential one-day unfavorable impact on gross margin was $0.4 million, as measured by VAR, related to its commodity trading and marketing business, compared to $0.4 million as of December 31, 2001. The average daily VAR for the six months ended June 30, 2002 was $0.5 million. Avista Energy was in compliance with its one-day VAR limits during the six months ended June 30, 2002. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits. Market risks associated with derivative commodity instruments held for purposes other than trading were not material as of June 30, 2002.

For forward transactions that settle beyond the immediate eight calendar quarters, Avista Energy applies other risk measurement techniques, including price sensitivity stress tests, to assess the future market risk. Volatility in longer-dated forward markets tends to be significantly less than near-term markets.

Spokane River Relicensing

The Company operates six hydroelectric plants on the Spokane River, and five of these (Long Lake, Nine Mile, Upper Falls, Monroe Street and Post Falls) are under one FERC license and called the Spokane River Project. The sixth, Little Falls, is not licensed by the FERC. The license for the Spokane River Project expires in August 2007; the Company filed a Notice of Intent to Relicense on July 29, 2002. The formal consultation process involving planning and information gathering with stakeholder groups is underway. The Company's goal is to develop with the stakeholders a comprehensive settlement agreement to be filed with the Company's license application in July 2005.

Clark Fork Settlement Agreement

The issue of high levels of dissolved gas which exceed Idaho water quality standards downstream of the Cabinet Gorge Hydroelectric Generating Development (Cabinet Gorge) during spill periods continues to be studied, as agreed to in the Clark Fork Settlement Agreement. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. An

engineering feasibility study identified several possible structural alternatives at Cabinet Gorge that may reduce dissolved gas levels. Under the terms of the Clark Fork Settlement Agreement, the Company will develop an abatement and/or mitigation strategy in the second half of 2002 in conjunction with the other signatories to the agreement. The Company believes that any costs for modification of Cabinet Gorge would be capitalized and recovered in future period through retail rates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See "Liquidity and Capital Resources: Business Risk."

Part II. Other Information

Item 1. Legal Proceedings

See Note 9 of the Notes to Consolidated Financial Statements, which is incorporated by reference.

Item 4. Submission of Matters to a Vote of Security Holders

The 2002 Annual Meeting of Shareholders of Avista Corp. was held on May 9, 2002. The election of three directors with expiring terms was the only matter voted upon at the meeting. There were 47,734,097 shares of common stock issued and outstanding as of March 19, 2002, the proxy record date, with 41,812,629 shares represented at said meeting. The results of the voting are shown below:

Director	For	Against or Withheld	Term Expires
Roy L. Eiguren	40,727,796	1,084,833	2005
Gary G. Ely	40,739,804	1,072,825	2005
Jessie J. Knight, Jr.	40,421,476	1,391,153	2005

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

4(d)	Credit Agreement, dated as of May 21, 2002, among Avista Corporation, the Banks Party Hereto, Keybank and Washington Mutual Bank, as Co-Agents, U.S. Bank, National Association, as Managing Agent, Fleet National Bank and Wells Fargo Bank, as Documentation Agents, Union Bank of California, N.A., as Syndication Agent and The Bank of New York, as Administrative Agent and Issuing Bank.
4(e)	Receivables Purchase Agreement, dated as of May 29, 2002, among Avista Receivables Corp., as Seller, Avista Corporation, as initial Servicer and Eaglefunding Capital Corporation, as Conduit Purchaser and Fleet National Bank, as Committed Purchaser and Fleet Securities, Inc. as Administrator
4(f)	Thirtieth Supplemental Indenture, dated as of May 1, 2002.
12	Computation of ratio of earnings to fixed charges and preferred dividend requirements.
99(a)	Statements of Corporate Officers (Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

(b) Reports on Form 8-K.

Dated May 21, 2002 with respect to a Settlement Stipulation on the remaining issues of the Washington electric rate case, new financing agreements and the issuance of a FERC order.

Dated May 22, 2002 with respect to the responses of Avista Corp. and Avista Energy to the FERC regarding certain trading strategies in California markets during 2000 and 2001.

Dated June 13, 2002 with respect to a shareholder lawsuit, a subpoena issued to Avista Corp. by the U.S. Commodity Futures Trading Commission and the WUTC order on the Washington electric rate case.

Dated June 14, 2002 with respect to Avista Corp.’s response to a FERC order.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVISTA CORPORATION
(Registrant)

Date: August 12, 2002

/s/ Jon E. Eliassen

Jon E. Eliassen Senior Vice President and
Chief Financial Officer
(Principal Accounting and
Financial Officer)

EXHIBIT 4(d)

EXECUTION COPY

==========

CREDIT AGREEMENT

dated as of May 21, 2002

among

AVISTA CORPORATION,

THE BANKS PARTY HERETO,

KEYBANK and WASHINGTON MUTUAL BANK,
as Co-Agents,

U.S. BANK, NATIONAL ASSOCIATION
as Managing Agent,

FLEET NATIONAL BANK and WELLS FARGO BANK,
as Documentation Agents,

UNION BANK OF CALIFORNIA, N.A.,
as Syndication Agent,

and

THE BANK OF NEW YORK,
as Administrative Agent and Issuing Bank

BNY CAPITAL MARKETS, INC. and UNION BANK OF CALIFORNIA, N.A.
Lead Arrangers and Book Managers

==========

TABLE OF CONTENTS

CREDIT AGREEMENT dated as of May 21, 2002, among AVISTA CORPORATION, a Washington corporation, the Banks listed in Schedule 2.01, KEYBANK and WASHINGTON MUTUAL BANK, as Co-Agents, U.S. BANK, NATIONAL ASSOCIATION, as Managing Agent, FLEET NATIONAL BANK and WELLS FARGO BANK, as Documentation Agents, UNION BANK OF CALIFORNIA, N.A., as Syndication Agent, and THE BANK OF NEW YORK, as Administrative Agent and Issuing Bank.

The Borrower has requested that the Banks agree to make loans and buy participations in letters of credit issued by the Issuing Bank on a revolving credit basis during the period commencing with the date hereof and ending on the Expiration Date (as defined herein) in an aggregate principal amount not in excess of $225,000,000 at any time outstanding. The proceeds of such borrowings and such letters of credit are to be used for general corporate purposes.

In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR" when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Article II.

"Administrative Agent" shall mean The Bank of New York, as administrative agent for the Banks and the Issuing Bank under the Loan Documents, and any successor Administrative Agent appointed pursuant to Section 8.06.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form of Exhibit C.

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the sum of (i) the Federal Funds Effective Rate in effect for such day plus (ii) 1/2 of 1%. If for any reason the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is adopted.

"Applicable Rate" shall mean on any date (a) with respect to Eurodollar Loans, ABR Loans or the LC Participation Fee, the rate per annum set forth in the following table in the "Eurodollar Margin", "ABR Margin" or "LC Participation Fee" column, as applicable, for the Pricing Level in effect for such date and (b) with respect to the Commitment Fee, the rate per annum set forth in the following table in the "Commitment Fee" column for the applicable Usage as of such date, for the Pricing Level in effect on such date.

Pricing Levels	Commitment Fee (less than or equal to 33.33% Usage)	Commitment Fee (> 33.33% but less than or equal to 50.0% Usage)	Commitment Fee (> 50.0% Usage)	Eurodollar Margin	LC Participation Fee	ABR Margin
I	0.250%	0.200%	0.150%	1.250%	1.250%	0.250%
II	0.375%	0.250%	0.200%	1.500%	1.500%	0.500%
III	0.500%	0.375%	0.250%	1.750%	1.750%	0.750%
IV	0.625%	0.500%	0.375%	2.000%	2.000%	1.000%
V	0.750%	0.625%	0.500%	2.500%	2.500%	1.500%

For purposes of the foregoing table:

"Pricing Level I" will be applicable for so long as (i) the Senior Debt Rating is BBB+ or higher by S&P and (ii) the Senior Debt Rating is Baa1 or higher by Moody's;

"Pricing Level II" will be applicable for so long as (i) the Senior Debt Rating is BBB or higher by S&P, (ii) the Senior Debt Rating is Baa2 or higher by Moody's and (iii) Pricing Level I is not applicable;

"Pricing Level III" will be applicable for so long as (i) the Senior Debt Rating is BBB- or higher by S&P, (ii) the Senior Debt Rating is Baa3 or higher by Moody's and (iii) Pricing Levels I and II are not applicable;

"Pricing Level IV" will be applicable for so long as (i) the Senior Debt Rating is BB+ or higher by S&P, (ii) the Senior Debt Rating is Ba1 or higher by Moody's and (iii) Pricing Levels I, II, and III are not applicable;

"Pricing Level V" will be applicable for so long as (i) the Senior Debt Rating is less than BB+ by S&P or there is no Senior Debt Rating by S&P or (ii) the Senior Debt Rating less than Ba1 by Moody's or there is no Senior Debt Rating by Moody's; and

"Usage" shall mean the percentage equivalent to the quotient of (i) total Revolving Credit Exposure divided by (ii) total Commitments.

If the Senior Debt Rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non-availability of ratings from such rating agency.

"Assignment and Assumption" shall mean an assignment and assumption agreement entered into by a Bank and an assignee in the form of Exhibit B or such other form as shall be approved by the Administrative Agent.

"Attributable Debt" shall mean, in connection with any Sale-Leaseback, the present value (discounted in accordance with GAAP at the discount rate implied in the lease) of the obligations of the lessee for rental payments during the term of the lease.

"Availability Period" shall mean the period from and including the date of this Agreement to but excluding the Expiration Date.

"Avista Utilities" means the operating division of the Borrower which represents all the regulated utility operations of the Borrower that are responsible for retail electric and natural gas distribution, electric transmission services and electric generation and production.

"Avista Utilities EBITDA" means, for any period, (a) Avista Utilities Net Income for such period plus (b) in each case, without duplication and to the extent deducted in computing Avista Utilities Net Income for such period, the sum for such period of (i) income tax expense, (ii) interest expense, (iii) depreciation and amortization expense, (iv) any extraordinary or non-recurring losses and (v) other non-cash items reducing such Avista Utilities Net Income for such period, minus (c) in each case, without duplication and to the extent added in computing Avista Net Income for such period, the sum of for such period of (i) any extraordinary or non-recurring gains and (ii) other non-cash items increasing Avista Utilities Net Income for such period, all as determined in accordance with GAAP, plus (d) for any period including the fiscal quarter ended December 31, 2001, $20,600,000 of power cost deferrals deducted in computing Avista Utilities Net Income for such fiscal quarter but incurred with respect to prior fiscal quarters.

"Avista Utilities Interest Expense" means, for any period, interest expense of Avista Utilities for such period determined in accordance with GAAP.

"Avista Utilities Net Income" means, for any period, the net income or loss of Avista Utilities for such period determined in accordance with GAAP.

"Bank" shall mean (a) any person listed on Schedule 2.01 and (b) any person that has been assigned any or all of the rights or obligations of a Bank pursuant to Section 9.04.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States.

"Bond Delivery Agreement" shall mean the Bond Delivery Agreement, dated as of the date of this Agreement, between the Borrower and the Administrative Agent.

"Borrower" shall mean Avista Corporation, a Washington corporation, and its successors and assigns.

"Borrowing" shall mean a group of Loans of the same Type made on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York) on which banks are open for business in New York City; provided that when used in connection with a Eurodollar Loan the term "Business Day" shall also exclude any day on which banks are not open for dealings in deposits in dollars in the London interbank market.

"Capital Lease Obligations" of any person shall mean the obligations of such person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of shares representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; provided, that no event described in clause (a) or clause (b) shall constitute a "Change in Control" if the senior secured long-term debt rating of the Borrower shall be at least BBB- or higher by S&P and Baa3 or higher by Moody's immediately after giving effect to the transaction that would otherwise constitute a Change in Control.

"Code" shall mean the Internal Revenue Code of 1986, as the same maybe amended from time to time.

"Commitment" shall mean, with respect to each Bank, (a) (i) in the case of a Bank listed on Schedule 2.01, the amount set forth opposite such Bank's name under the heading "Commitment" on such Schedule and (ii) in the case of a Bank that becomes a Bank pursuant to an assignment under Section 9.04, the amount specified as assigned to such Bank in the Assignment and Assumption pursuant to which such Bank becomes a Bank, in each case, as the same may be reduced from time to time pursuant to Section 2.10(b), or reduced or increased from time to time pursuant to assignments in accordance with Section 9.04, or (b) as the context

may require, the obligation of such Bank to make Loans or acquire participations in Letters of Credit in an aggregate unpaid principal amount not exceeding such amount.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.06(a).

"Consolidated Total Capitalization" on any date means the sum, without duplication, of the following with respect to the Borrower and its consolidated subsidiaries: (a) total capitalization as of such date, as determined in accordance with GAAP, (b) the current portion of liabilities which as of such date would be classified in whole or part as long-term debt in accordance with GAAP (it being understood that the noncurrent portion of such liabilities is included in the total capitalization referred to in clause (a)), (c) all obligations as lessee which, in accordance with GAAP, are capitalized as liabilities (including the current portion thereof), and (d) all other liabilities which would be classified as short-term debt in accordance with GAAP.

"Consolidated Total Debt" on any date means the sum, without duplication, of the following with respect to the Borrower and its consolidated subsidiaries: (a) all liabilities which as of such date would be classified in whole or in part as long-term debt in accordance with GAAP (including the current portion thereof), (b) all obligations as lessee which, in accordance with GAAP, are capitalized as liabilities (including the current portion thereof), (c) all other liabilities which would be classified as short-term debt in accordance with GAAP, and (d) all Guarantees of or by the Borrower.

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and "Controlling" and "Controlled" shall have meanings correlative thereto.

"Default" shall mean any event or condition which upon notice, lapse of time or both would constitute an Event of Default.

"dollars" or "$" shall mean lawful money of the United States of America.

"Equity Interests" shall mean shares of stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a person, and all options, warrants or other rights to acquire any such equity ownership interests in a person.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and which is treated as a single employer under Section 414 of the Code.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Eurodollar Rate.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Article II.

"Eurodollar Rate" shall mean, for any Interest Period, the rate of interest per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Telerate Page 3750, the applicable rate shall be the arithmetic mean of all such rates. If, for any reason, such rate is not available for any Interest Period, "Eurodollar Rate" shall mean, for such Interest Period, the arithmetic mean (rounded upward, if necessary, to the nearest 1/16 of 1%) of the rates quoted by major banks in New York City selected by the Administrative Agent and reasonably acceptable to the Borrower at approximately 11:00 a.m. (New York City time) two Business Days prior to the first day of such Interest Period for loans in dollars to leading European banks for a term comparable to such Interest Period commencing on the first day of such Interest Period and in an amount of $1,000,000.

"Event of Default" shall have the meaning assigned to such term in Article VII.

"Existing Credit Agreement" shall mean the Amended and Restated Credit Agreement dated as of May 31, 2001 among Avista Corporation, the banks listed in Schedule 2.01 thereof, Toronto Dominion (Texas), Inc., as agent for the banks, and The Bank of New York, as documentation agent, as the same has been amended, modified or supplemented to date.

"Existing LC Exposure" shall mean, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Existing Letters of Credit at such time plus (b) the aggregate amount of all unreimbursed drawings under Existing Letters of Credit at such time.

"Existing Letters of Credit" shall mean all letters of credit issued and outstanding under the Existing Credit Agreement as of the date of this Agreement.

"Expiration Date" shall mean May 20, 2003.

"Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as reported on such Business Day by the Federal Reserve Bank of New York, or, if such rate is not so reported for any day that is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Fees" shall mean the Commitment Fee and the other fees referred to in Section 2.06.

"Financial Officer" of any corporation shall mean the chief financial officer or Treasurer of such corporation.

"First Mortgage" shall mean the Mortgage and Deed of Trust dated as of June 1, 1939, made by the Borrower in favor of Citibank, N.A., as successor trustee, as the same has been amended, modified or supplemented to date and as the same may be further amended, modified or supplemented from time to time hereafter.

"First Mortgage Bond" shall mean a bond of the Twenty-Eighth Series issued under the Supplemental Indenture, in a principal amount equal to the total Commitments on the date of this Agreement, payable to the Administrative Agent.

"GAAP" shall mean generally accepted accounting principles, applied on a consistent basis.

"Governmental Authority" shall mean any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantee" of or by any person shall mean any obligation, contingent or otherwise, of such person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; provided, however, that the term Guarantee shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, but limited, if such obligations are without recourse to such person, to the lesser of the principal amount of such Indebtedness or the fair market value of such property, (g) all Guarantees by such person of Indebtedness of others, (h) all Capital Lease Obligations of such person, (i) all obligations of such person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the amount that would be payable upon the acceleration, termination or liquidation thereof) and (j) all obligations of such person as an account party in respect of letters of credit and bankers' acceptances. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner.

"Interest Payment Date" shall mean (a) in the case of any Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and (b) in addition, in the case of a Eurodollar Loan that is part of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day that would have been an Interest Payment Date had successive Interest Periods of three months' duration been applicable to such Borrowing.

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect, and (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earlier of (i) the next succeeding March 31, June 30, September 30 or December 31 and (ii) the Expiration Date; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Investment" by any person shall mean (a) the purchase or other acquisition of any Equity Interest in any other person, (b) any loan, advance or extension of credit to any other person, (c) any contribution to the capital of any other person, (d) any Guarantee of the Liabilities of any other person or (e) any other investment in any other person.

"Issuing Bank" shall mean The Bank of New York in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity. The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"LC Disbursement" shall mean a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" shall mean, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Bank at any time shall be its Pro Rata Share of the total LC Exposure at such time.

"LC Participation Fee" shall have the meaning assigned to such term in Section 2.06(b).

"Letter of Credit" shall mean any letter of credit issued pursuant to this Agreement.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" shall mean this Agreement, the First Mortgage Bond, the First Mortgage, the Supplemental Indenture, the Bond Delivery Agreement, any Notes, and any letter of credit applications executed and delivered by the Borrower in connection with Letters of Credit.

"Loans" shall mean loans made by the Banks to the Borrower pursuant to this Agreement.

"Margin Stock" shall have the meaning given such term under Regulation U.

"Material Adverse Effect" shall mean an effect on the business, assets, operations or financial condition of the Borrower and the Subsidiaries taken as a whole which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

"Moody's" shall mean Moody's Investors Service, Inc.

"Notes" shall mean any promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans, as may be delivered pursuant to Section 2.04.

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"person" shall mean a corporation, association, partnership, trust, limited liability company, organization, business, individual or government or governmental agency or political subdivision thereof.

"Plan" shall mean any pension plan subject to the provisions of Title IV of ERISA or Section 412 or the Code which is maintained for employees of the Borrower or any ERISA Affiliate.

"Prime Rate" means the prime U.S. commercial lending rate of The Bank of New York, as publicly announced to be in effect from time to time. The Prime Rate shall be adjusted automatically, without notice, on the effective date of any change in such prime U.S. commercial lending rate. The Prime Rate is not necessarily The Bank of New York's lowest rate of interest.

"Pro Rata Share" shall mean, with respect to any Bank, the percentage of the total Commitments represented by such Bank's Commitment. If the Commitments have terminated or expired, the Pro Rata Shares of the Banks shall be determined based upon the Commitments most recently in effect.

"Register" shall have the meaning given to such term in Section 9.04(c).

"Regulation D" shall mean Regulation D of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof and shall include any successor or other regulation or official interpretation of the Board relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Regulation U" shall mean Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Reportable Event" shall mean any reportable event as defined in Section 4043(b) of ERISA or the regulations issued thereunder with respect to a Plan (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code).

"Required Banks" shall mean, at any time, Banks having Revolving Credit Exposures representing more than 66 2/3% of the aggregate Revolving Credit Exposures or, if there shall be no Revolving Credit Exposure, Banks having Commitments representing more than 66 2/3% of the aggregate Commitments.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

"Revolving Credit Exposure" shall mean, with respect to any Bank at any time, the sum of the outstanding principal amount of such Bank's Loans and its LC Exposure at such time.

"RTO Transaction" shall mean any sale, transfer or other disposition of transmission assets entered into in connection with the formation of a regional transmission organization pursuant to or in a manner consistent with regulatory requirements applicable to the Borrower.

"S&P" shall mean Standard & Poor's Ratings Services.

"Sale-Leaseback" shall mean any arrangement whereby any person shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

"Senior Debt Rating" shall mean the rating by Moody's or S&P, as applicable, of the Borrower's senior secured long-term debt obligations.

"Significant Subsidiary" shall mean a Subsidiary meeting any one of the following conditions: (a) the investments in and advances to such Subsidiary by the Borrower and the other Subsidiaries, if any, as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (b) the Borrower's and the other Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of such Subsidiary as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (c) the equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles of such Subsidiary for the period of four consecutive fiscal quarters ending at the end of the Borrower's latest fiscal quarter exceeded 10%

of such income of the Borrower and its Subsidiaries for such period, computed and consolidated in accordance with GAAP; or (d) such Subsidiary is the parent of one or more Subsidiaries and, together with such Subsidiaries would, if considered in the aggregate, constitute a Significant Subsidiary.

"Statutory Reserves" shall mean, with respect to any Eurodollar Loan for any date, a fraction (expressed as a decimal) the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including, without limitation, any marginal, special, emergency or supplemental reserves) in effect for such date with respect to Eurodollar funding (including with respect to Eurocurrency Liabilities as defined in Regulation D) in an amount approximately equal to such Eurodollar Loan and with a term approximately equal to the Interest Period for such Eurodollar Loan expressed as a decimal established by the Board or by any other United States banking authority to which the Administrative Agent is subject. Such reserve percentages shall include, without limitation, those imposed under Regulation D. Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"subsidiary" shall mean, for any person (the "Parent"), any corporation, partnership or other entity of which securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) are at the time directly or indirectly owned or controlled by the Parent or one or more of its subsidiaries or by the Parent and one or more of its subsidiaries.

"Subsidiary" shall mean a subsidiary of the Borrower.

"Supplemental Indenture" shall mean the Thirtieth Supplemental Indenture, dated as of May 1, 2002, between the Borrower and Citibank, N.A., as trustee under the First Mortgage.

"Transactions" shall have the meaning assigned to such term in Section 3.02.

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, "Rate" shall mean, in the case of a Loan or Borrowing, the Eurodollar Rate or the Alternate Base Rate.

Section 1.02 Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that if the Borrower notifies the Administrative Agent that the

Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Banks request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II

THE CREDITS

Section 2.01 Commitments. (a)Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make Loans to the Borrower, at any time and from time to time during the Availability Period, in an aggregate principal amount at any time outstanding that will not result in (a) the Revolving Credit Exposure of any Bank exceeding such Bank's Commitment or (b) the total Revolving Credit Exposures exceeding the total Commitments (less any Existing LC Exposure). Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Loans during the Availability Period, subject to the terms, conditions and limitations set forth herein.

Section 2.02 Loans. (a) Each Loan shall be made as part of a Borrowing consisting of Loans made by the Banks ratably in accordance with their Commitments. The failure of any Bank to make any Loan required to be made hereunder shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Loan required to be made by such other Bank). The Loans comprising each Borrowing shall be in an aggregate principal amount of not less than $1,000,000.

(b) Subject to Section 2.09, each Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement or any applicable Note. Borrowings of more than one Type may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than seven separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(b) Subject to paragraph (e) below, each Bank shall make a Loan in the amount of its Pro Rata Share of each Borrowing on the proposed date thereof by wire transfer of immediately available funds to the Administrative Agent in New York, New York, not later than 2:00 p.m., New York City time, and the Administrative Agent shall by 3:00 p.m., New York City

time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Bank of America, N.A., Account Number 12332 29152; ABA # 121000358, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Administrative Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's portion of such Borrowing, the Administrative Agent may assume that such Bank has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with this paragraph (c) and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Administrative Agent, such Bank and the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Expiration Date.

(e) The Borrower may refinance all or any part of any Borrowing with a new Borrowing of the same or a different Type, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.04 or 2.11, as applicable, with the proceeds of the new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Administrative Agent or by the Administrative Agent to the Borrower pursuant to paragraph (c) above.

Section 2.03 Notice of Borrowings. (a) To request a Borrowing, the Borrower shall give the Administrative Agent notice thereof (a) in the case of a Eurodollar Borrowing, not later than 12:00 noon, New York City time, three Business Days before a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 noon, New York City time, the day of a proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing or

given notice to the Administrative Agent not later than 12:00 noon, New York City time, on the last day of the Interest Period applicable to such Borrowing that it will not refinance such Borrowing, then the Borrower shall be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Administrative Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

Section 2.04 Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay each Bank the then unpaid principal amount of each Loan of such Bank on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Loan shall bear interest on the outstanding principal balance thereof as set forth in Section 2.07.

(b) Each Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Bank resulting from each Loan made by such Bank, including the amounts of principal and interest payable and paid to such Bank from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount and date of each Loan made hereunder, the Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal, interest or fees due and payable or to become due and payable from the Borrower to each Bank hereunder and (iii) the amount of any principal, interest or fees received by the Administrative Agent hereunder for the account of the Banks and each Bank's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Bank or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Bank may request that Loans made by it be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Bank a Note payable to the order of such Bank (or, if requested by such Bank, to such Bank and its registered assigns). Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more Notes in such form payable to the order of the payee named therein (or, if such Note is a registered Note, to such payee and its registered assigns).

Section 2.05 Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed $50,000,000 (less any Existing LC Exposure) and (ii) the total Revolving Credit Exposures shall not exceed the total Commitments (less any Existing LC Exposure).

(c) Expiration Date. Each Letter of Credit shall expire not later than the close of business on the date that is five Business Days prior to the Expiration Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Banks, the Issuing Bank hereby grants to each Bank, and each Bank hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Bank's Pro Rata Share of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Bank hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Bank's Pro Rata Share of (i) each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section and (ii) any reimbursement payment required to be refunded to the Borrower for any reason to the extent received by such Bank. Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that, if

such LC Disbursement is not less than $1,000,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Bank of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Bank's Pro Rata Share thereof. Promptly following receipt of such notice, each Bank shall pay to the Administrative Agent its Pro Rata Share of the payment then due from the Borrower, in the same manner as provided in Section 2.02 with respect to Loans made by such Bank (and Section 2.02 shall apply, mutatis mutandis, to the payment obligations of the Banks), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Banks. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Banks have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Banks and the Issuing Bank as their interests may appear. Any payment made by a Bank pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Banks nor the Issuing Bank, nor any of their respective directors, officers, employees or agents, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's gross negligence or wilful misconduct. The parties hereto expressly agree that, in the absence of gross negligence or wilful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the

parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Banks with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.08 shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Bank pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Bank to the extent of such payment.

(i) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent, at the request of the Issuing Bank or the Required Banks, demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Issuing Bank and the Banks, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (g) or (h) of Article VII. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under the Loan Documents. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or be applied to satisfy other obligations of the Borrower under the Loan Documents. If the Borrower is required

to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

Section 2.06 Fees. (a) The Borrower agrees to pay to each Bank, through the Administrative Agent, on the first Business Day of January, April, July and October of each year and on the date on which the Commitment of such Bank shall be reduced or terminated as provided herein, a commitment fee at the Applicable Rate (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be reduced or terminated). The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Rate in effect on such day. All Commitment Fees shall be computed on the basis of a year of 365 or 366 days, as the case may be, and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided herein.

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Bank a participation fee with respect to its participations in Letters of Credit, which shall accrue at the Applicable Rate (an "LC Participation Fee") on the average daily amount of such Bank's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the date of this Agreement to but excluding the later of the date on which such Bank's Commitment terminates and the date on which such Bank ceases to have any LC Exposure, and (ii) to the Administrative Agent for the account of the Issuing Bank a fronting fee for Letters of Credit, which shall accrue at the rate per annum of 0.125% on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the date of this Agreement to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure. LC Participation Fees and Letter of Credit fronting fees shall be payable on the first Business Day of January, April, July and October of each year and on the date on which the Commitments terminate as provided herein; provided that all such fees accruing after the date on which the Commitments terminate shall be payable on demand. All LC Participation Fees and Letter of Credit fronting fees shall be computed on the basis of a year of 365 or 366 days, as the case may be, and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, the fees separately agreed between the Administrative Agent and the Borrower.

(d) Once paid, none of the Fees shall be refundable under any circumstances.

Section 2.07 Interest on Loans. (a) Subject to the provisions of Section 2.08, the Loans comprising each ABR Borrowing shall bear interest at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Subject to the provisions of Section 2.08, the Loans comprising each Eurodollar Borrowing shall bear interest at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement.

(d) Interest computed on the basis of the Alternative Base Rate (including interest payable on overdue amounts under Section 2.08) shall be computed on the basis of a year of 365 or 366 days, as the case may be, for the actual number of days elapsed so long as the Prime Rate is the applicable rate for calculation of the Alternate Base Rate, and on the basis of a year of 360 days for the actual number of days elapsed so long as the Federal Funds Effective Rate is the applicable rate for calculation of the Alternate Base Rate. Interest computed on the basis of the Eurodollar Rate (including interest payable on overdue amounts under Section 2.08) shall be computed on the basis of a year of 360 days for the actual number of days elapsed.

(e) The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Section 2.08 Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due under the Loan Documents, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate plus 2% (except that the interest rate applicable to an overdue amount of principal of a Eurodollar Borrowing that became due on a day other than on the last day of the Interest Period applicable thereto shall, for the period until the last day of such Interest Period, be equal to 2% above the rate that would otherwise be applicable thereto during such Interest Period).

Section 2.09 Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Administrative Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Administrative Agent shall, as soon as practicable thereafter, give notice of such determination to the Borrower and the Banks. In the event of any such determination, any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Administrative Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

Section 2.10 Termination, Reduction and Extension of Commitments. (a) The Commitments shall be automatically terminated on the Expiration Date.

(b) Upon at least three Business Days' prior irrevocable notice to the Administrative Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an aggregate amount of not less than $5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Revolving Credit Exposures would exceed the total Commitments.

(c) The Borrower may request an extension of this Agreement upon 60 days' prior notice to the Administrative Agent; provided, that, such extension will be at the sole option of the Banks and the Issuing Bank and will require the written agreement of each Bank and the Issuing Bank in order to become effective.

Section 2.11 Prepayment. The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior notice to the Administrative Agent; provided, however, that each partial prepayment shall be in an amount of not less than $1,000,000. Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.11 shall be subject to Section 2.14 but otherwise without premium or penalty. All prepayments under this Section 2.11 shall be accompanied by accrued interest on the principal amount being prepaid to (but excluding) the date of payment.

Section 2.12 Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision herein, if after the date of this Agreement there is adopted any new law, rule or regulation or any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) which shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by any Bank (except any such reserve requirement which is reflected in the Eurodollar Rate) or shall impose on such Bank or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Bank or any Letter of Credit or participation therein, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Eurodollar Loan or to increase the cost to such Bank or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Bank or the Issuing Bank hereunder or under any Notes (whether of principal, interest or otherwise) by an amount deemed by such Bank to be material, then the Borrower will pay to such Bank or the Issuing Bank, as the case may be, upon demand such additional amount or amounts as will compensate such Bank or the Issuing Bank for such additional costs incurred or reduction suffered.

(b) If any Bank or the Issuing Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank or the Issuing Bank (or any lending office thereof) or any Bank's or the Issuing Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's or the Issuing Bank's capital or on the capital of such Bank's or the Issuing Bank's holding company, if any, with respect to this Agreement or Loans made by such Bank or any Letter of Credit or participation therein to a level below that which such Bank or the Issuing Bank or such Bank's or the Issuing Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's or the Issuing Bank's policies and the policies of such Bank's or the Issuing Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank or the Issuing Bank to be material, then from time to time the Borrower shall pay to such Bank or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Bank or the Issuing Bank or such Bank's or the Issuing Bank's holding company for any such reduction suffered. It is acknowledged that this Agreement is being entered into by the Banks and the Issuing Bank on the understanding that the Banks and the Issuing Bank will not be required to maintain capital against their obligations to make Loans or issue Letters of Credit or purchase participations therein under currently applicable laws, regulations and regulatory guidelines. In the event Banks or the Issuing Bank shall be advised by any Governmental Authority or shall otherwise determine on the basis of pronouncements of any Governmental Authority that such understanding is incorrect, it is agreed that the Banks and the Issuing Bank will be entitled to make claims under this paragraph based upon market requirements prevailing on the date hereof for commitments under comparable credit facilities against which capital is required to be maintained.

(c) A certificate of a Bank or the Issuing Bank setting forth in reasonable detail such amount or amounts as shall be necessary to compensate such Bank or the Issuing Bank or such Bank's or the Issuing Bank's holding company as specified in paragraph (a) or (b) above, as the case may be, and the manner in which such Bank or the Issuing Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay the Bank or the Issuing Bank, as the case may be, the amount shown as due on any such certificate delivered by it within 10 days after its receipt of the same.

(d) Failure on the part of any Bank or the Issuing Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's or the Issuing Bank's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to each Bank and the Issuing Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

Section 2.13 Change in Legality. (a) Notwithstanding any other provision herein, if any change in, or adoption of, any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by notice to the Borrower and to the Administrative Agent, such Bank may:

(i) declare that Eurodollar Loans will not thereafter be made by such Bank hereunder, whereupon any request by the Borrower for a Eurodollar Borrowing shall, as to such Bank only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below.

In the event any Bank shall exercise its rights under (i) or (ii) above, all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Bank or the converted Eurodollar Loans of such Bank shall instead be applied to repay the ABR Loans made by such Bank in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.13, a notice to the Borrower by any Bank shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan.

Section 2.14 Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow any Eurodollar Loan hereunder after irrevocable notice of such borrowing has been given or deemed given pursuant to Section 2.03, (c) any payment or prepayment of a Eurodollar Loan required by any provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto, (d) any assignment of a Eurodollar Loan pursuant to Section 2.19(b) made or deemed made on a date other than the last day of the Interest Period applicable thereto, or (e) any default in payment or prepayment of the principal amount of any Eurodollar Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by such Bank, of (i) its cost of obtaining the funds for the Eurodollar Loan being paid, prepaid, assigned or not borrowed (assumed to be the Eurodollar Rate applicable thereto) for the period from the date of such payment, prepayment, assignment or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure) over (ii) the amount

of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid, assigned or not borrowed for such period or Interest Period, as the case may be. A certificate of any Bank setting forth any amount or amounts which such Bank is entitled to receive pursuant to this Section, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error.

Section 2.15 Pro Rata Treatment. Except as required under Section 2.13, each Borrowing, each payment or prepayment of principal of any Borrowing or LC Disbursement, each payment of interest on the Loans or LC Disbursements, each payment of the Fees, and each reduction of the Commitments shall be allocated among the Banks in accordance with their respective Pro Rata Shares. Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Administrative Agent may, in its discretion, round each Bank's Pro Rata Share of such Borrowing to the next higher or lower whole dollar amount.

Section 2.16 Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of its Loans or participations in LC Disbursements as a result of which the unpaid principal portion of its Loans or participations in LC Disbursements shall be proportionately less than the unpaid principal portion of the Loans or participations in LC Disbursements of any other Bank, it shall be deemed simultaneously to have purchased from such other Bank at face value, and shall promptly pay to such other Bank the purchase price for, a participation in the Loans or participations in LC Disbursements, as applicable, of such other Bank ("Sharing Participations"), so that (i) the aggregate unpaid principal amount of the Loans, participations in LC Disbursements and Sharing Participations held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Loans and LC Disbursements then outstanding as (ii) the principal amount of its Loans, participations in LC Disbursements and Sharing Participations prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Loans and LC Disbursements outstanding prior to such exercise of banker's lien, setoff or counter claim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Loan or in a participation in an LC Disbursement deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Bank by reason thereof as fully as if such Bank had made a Loan directly to the Borrower or had acquired a participation in an LC Disbursement directly from the Issuing Bank, as the case may be, in the amount of such participation.

Section 2.17 Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or reimbursements of LC Disbursements or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 noon, New

York City time, on the date when due in dollars to the Administrative Agent at its offices at One Wall Street, New York, New York, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Borrowing or reimbursements of LC Disbursements or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

Section 2.18 Taxes. (a) Any and all payments by the Borrower hereunder and under any other Loan Document shall be made, in accordance with Section 2.17, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Administrative Agent, any Bank or the Issuing Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Administrative Agent, any Bank or the Issuing Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Administrative Agent, any such Bank or the Issuing Bank (or such Transferee) or the applicable lending office, is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable under any Loan Document to the Banks or the Issuing Bank (or any Transferee) or the Administrative Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions of Taxes (including deductions applicable to additional sums payable under this Section 2.18) such Bank or the Issuing Bank (or such Transferee) or the Administrative Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions of Taxes been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to receive with respect to the rights assigned, participated or other wise transferred except to the extent that such greater payment arises from circumstances not in existence at the time such assignment, participation or transfer shall have been made.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Bank (or Transferee), the Issuing Bank (or Transferee) and the Administrative Agent for the full amount of any Taxes and Other Taxes paid by such Bank (or such Transferee), the Issuing Bank (or such Transferee) or the Administrative Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or

Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank or the Issuing Bank (or Transferee) or the Administrative Agent, as the case may be, makes written demand therefor. If a Bank or the Issuing Bank (or Transferee) or the Administrative Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense.

(d) If any Bank or the Issuing Bank (or Transferee) or the Administrative Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.18 with respect to such refund) within 30 days (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), net of all reasonable out of pocket expenses of such Bank or the Issuing Bank (or Transferee) and without interest (other than interest included in such refund); provided that the Borrower, upon the request of such Bank or the Issuing Bank (or such Transferee) or the Administrative Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank or the Issuing Bank (or such Transferee) or the Administrative Agent in the event such Bank or the Issuing Bank (or such Transferee) or the Administrative Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Bank or the Issuing Bank (or Transferee) or the Administrative Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential); provided that Borrower, at its expense, shall have the right to receive an opinion from a firm of independent public accountants of recognized national standing acceptable to the Borrower that the amount due hereunder is correctly calculated.

(e) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Bank or the Issuing Bank (or Transferee) or the Administrative Agent, the Borrower will furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt received by the Borrower evidencing payment thereof.

(f) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.18 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(g) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Administrative Agent shall notify the Borrower of each Bank's or the Issuing Bank's (or Transferee's) address. On or prior to the Banks' or the Issuing Bank's (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank or the Issuing Bank (or Transferee) that is not a United States Person within the meaning of Section 770(a)(30) of the Code (a "Non-U.S. Person") shall, if legally able to do so, deliver to the Borrower and the Administrative Agent (i) one duly completed and executed copy of United States Internal Revenue Service Form W-8BEN or W-8ECI, (ii) if claiming exemption from United States Federal withholding tax pursuant to Sections 871(h) or 881(c) of the Code, one

duly completed and executed copy of a United States Internal Revenue Service Form W-8BEN and a certificate representing that such Non-U.S. Person is not a bank for purposes of Section 881(c) of the Code, is not a 10 percent shareholder (within the meaning of Section 871(h)(3)(b) of the Code) of the Borrower and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code) or (iii) any successor applicable form of any thereof, establishing in each case that such Bank or Issuing Bank (or Transferee) is entitled to receive payments under the Loan Documents payable to it without deduction or withholding of any United States Federal income taxes, or subject to a reduced rate thereof. Unless the Borrower and the Administrative Agent have received forms or other documents satisfactory to them indicating that such payments under the Loan Documents are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

(h) The Borrower shall not be required to pay any additional amounts to any Bank or the Issuing Bank (or Transferee) in respect of United States Federal withholding tax pursuant to paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Bank or such Issuing Bank (or Transferee) to comply with the provisions of paragraph (g) above; provided, however, that the Borrower shall be required to pay those amounts to any Bank or the Issuing Bank (or Transferee) that it was required to pay hereunder prior to the failure of such Bank or such Issuing Bank (or Transferee) to comply with the provisions of such paragraph (g).

Section 2.19 Termination or Assignment of Commitments Under Certain Circumstances. (a) Any Bank or the Issuing Bank (or Transferee) claiming any additional amounts payable pursuant to Section 2.12 or Section 2.18 or exercising its rights under Section 2.13 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Bank or such Issuing Bank, be otherwise disadvantageous to such Bank or such Issuing Bank (or Transferee).

(b) In the event that any Bank shall have delivered a notice or certificate pursuant to Section 2.13, or the Borrower shall be required to make additional payments under Section 2.12 or 2.18 to any Bank or the Issuing Bank (or Transferee) or to the Administrative Agent with respect to any Bank or the Issuing Bank (or Transferee), the Borrower shall have the right, at its own expense, upon notice to such Bank or the Issuing Bank (or Transferee) and the Administrative Agent (and, if a Commitment is being terminated or assigned, the Issuing Bank), (a) to terminate the Commitment of such Bank or such Issuing Bank (or Transferee) or (b) to require such Bank or the Issuing Bank (or Transferee) to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all its interests, rights and obligations under the Loan Documents to another financial institution which shall assume such obligations; provided that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the Borrower or the assignee, as the case may be, shall pay to the affected Bank or the Issuing Bank (or Transferee) in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts

accrued for its account or owed to it under the Loan Documents and, in the case of a termination or assignment by the Issuing Bank, shall cause all Letters of Credit to be surrendered for cancellation on or prior to the date of such termination or assignment.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to each of the Banks and the Issuing Bank that:

Section 3.01 Organization; Powers. Each of the Borrower and the Significant Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not result in a Material Adverse Effect, and (d) in the case of the Borrower, has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated thereby to which it is or will be a party and to borrow hereunder.

Section 3.02 Authorization. The execution, delivery and performance by the Borrower of each of the Loan Documents and the Borrowings and procurement of Letters of Credit hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation the violation of which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks or the Issuing Bank under the Loan Documents, or of the certificate or articles of incorporation or other constitutive documents or by laws of the Borrower or any Significant Subsidiary, (B) any order of any Governmental Authority the violation of which could reasonably be expected to impair the validity or enforceability of this Agreement or any other Loan Document, or materially impair the rights of or benefits available to the Banks or the Issuing Bank under the Loan Documents, or (C) any provision of any indenture or other material agreement or instrument evidencing or relating to borrowed money to which the Borrower or any Significant Subsidiary is a party or by which any of them or any of their property is or may be bound in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks or the Issuing Bank under the Loan Documents, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks or the Issuing Bank under the Loan Documents or (iii) result in the creation or imposition under any such indenture, agreement or other instrument of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower.

Section 3.03 Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by

the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

Section 3.04 Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required in connection with the Transactions, except such as have been made or obtained and are in full force and effect.

Section 3.05 Financial Statements. The Borrower has heretofore furnished to the Banks and the Issuing Bank its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 2001, audited by and accompanied by the opinion of Deloitte & Touche LLP, independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, reflect all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof which are material on a consolidated basis. Such financial statements were prepared in accordance with GAAP applied (except as noted therein) on a consistent basis.

Section 3.06 No Material Adverse Change. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and in any document filed after December 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 2001, which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

Section 3.07 Litigation; Compliance with Laws. (a) Except as set forth in the Annual Report of the Borrower on Form 10-K for the year ended December 31, 2001 or in any document filed after December 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

(b) Neither the Borrower nor any of the Subsidiaries is in violation of any law, rule or regulation, or in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, where such violation or default would be reasonably likely to result in a Material Adverse Effect.

Section 3.08 Federal Reserve Regulations. (a) Neither the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

(b) No part of the proceeds of any Loan or Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, (i) to purchase or carry Margin Stock or to extend credit to others for the purpose of purchasing or carrying Margin Stock or to refund indebtedness originally incurred for such purpose, or (ii) for any purpose which entails a violation of, or which is inconsistent with, the provisions of the Regulations of the Board, including Regulation U or X.

Section 3.09 Investment Company Act; Public Utility Holding Company Act. The Borrower is not (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) subject to regulation as a "holding company" under the Public Utility Holding Company Act of 1935.

Section 3.10 No Material Misstatements. No information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Administrative Agent, the Issuing Bank or any Bank in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or, when considered together with all reports theretofore filed with the Securities and Exchange Commission, omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading.

Section 3.11 Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than $10,000,000 the value of the assets of such Plan.

Section 3.12 Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in all cases in violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and

warranties set forth in this Section 3.12 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and in any document filed after December 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 or in any document filed after December 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

Section 3.13 Significant Subsidiaries. Schedule 3.13 sets forth as of the date hereof a list of all Significant Subsidiaries of the Borrower and the percentage ownership interest of the Borrower therein.

ARTICLE IV

CONDITIONS TO BORROWINGS AND LETTERS OF CREDIT

The obligations of the Banks to make Loans and of the Issuing Bank to issue, amend, renew or extend Letters of Credit, are subject to the satisfaction of the following conditions:

Section 4.01 All Borrowings and Letters of Credit. On the date of each Borrowing (including each Borrowing in which Loans are refinanced with new Loans as contemplated by Section 2.02(e)) or issuance, amendment, renewal or extension of a Letter of Credit:

(a) The Administrative Agent shall have received (i) in the case of a Borrowing, a notice of such Borrowing as required by Section 2.03 and (ii) in the case of an issuance, amendment, renewal or extension of a Letter of Credit, a notice requesting the same and any letter of application as required by Section 2.05.

(b) The representations and warranties set forth in Article III hereof (excluding, in the case of a refinancing of Loans or the issuance, amendment, renewal or extension of a Letter of Credit or the refinancing of an LC Disbursement that does not increase the Revolving Credit Exposure of any Bank, the representations set forth in Sections 3.06 and 3.07) shall be true and correct in all material respects on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

(c) The Borrower shall be in compliance with all the terms and provisions set forth herein and in each other Loan Document on its part to be observed or performed, and at the time of and immediately after such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit no Event of Default or Default shall have occurred and be continuing.

Each Borrowing and issuance, amendment, renewal or extension of such Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower on the date thereof as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

Section 4.02 First Borrowing or Letter of Credit. On the date of this Agreement:

(a) The Administrative Agent shall have received each of the following, in form and substance satisfactory to it:

(i) Opinions of Heller Ehrman White & McAuliffe, LLP, counsel to the Borrower, and Thelen Reid & Priest, dated the date of this Agreement and addressed to the Administrative Agent, the Banks and the Issuing Bank, with respect to such matters relating to the Borrower and the Loan Documents as the Administrative Agent, the Issuing Bank or any Bank may reasonably request. The Borrower hereby instructs such counsel to deliver such opinion to the Administrative Agent.

(ii) Evidence satisfactory to the Administrative Agent and set forth on Schedule 4.02(a)(ii) that the Borrower shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions, in each case without the imposition of any condition which, in the judgment of the Banks or the Issuing Bank, could adversely affect their rights or interests under the Loan Documents.

(iii) A copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State.

(iv) A certificate of the Secretary or Assistant Secretary of the Borrower dated the date of this Agreement and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the date of this Agreement and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and borrowings and procurement of letters of credit hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (iii) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection therewith on behalf of the Borrower

(v) A certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to clause (iv) above.

(vi) A certificate, dated the date of this Agreement and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(vii) Evidence satisfactory to the Administrative Agent that this Agreement, the Supplemental Indenture, the Bond Delivery Agreement, the First Mortgage Bond and any Notes requested by the Banks for issuance on the date of this Agreement, have been executed and delivered by all parties thereto.

(viii) A copy of the First Mortgage, certified by the Secretary or Assistant Secretary of the Borrower.

(ix) A paid mortgage title insurance policy, naming the trustee under the First Mortgage as the insured, insuring the Borrower's title to the real property subject to Lien of the First Mortgage, and the validity and first priority of the Lien of the First Mortgage (subject to Liens permitted to exist by the terms of the First Mortgage), in an amount not less than the principal amount of the First Mortgage Bond.

(x) Such other documents as the Administrative Agent, the Banks, the Issuing Bank or their respective legal counsel may reasonably request.

(b) All fees payable by the Borrower to the Administrative Agent, the Issuing Bank, the Banks or any of their Affiliates or any on or prior to the date of this Agreement with respect to this Agreement, and all amounts payable by the Borrower pursuant to Section 9.05 for which invoices have been delivered to the Borrower on or prior to such date, shall have been paid in full or arrangements satisfactory to the Administrative Agent shall have been made to cause them to be paid in full concurrently with the disbursement of the proceeds of any Borrowing to be made on such date.

(c) The Lenders shall have received a copy of each document filed after December 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934.

(d) The Administrative Agent shall be satisfied that (i) on the date of this Agreement, all commitments to make loans or issue letters of credit under the Existing Credit Agreement will be terminated, and all amounts accrued or owing under the Existing Credit Agreement will be paid in full, and (ii) all Existing Letters of Credit will expire on May 22, 2002.

(e) All legal matters incident to the Loan Documents and the transactions contemplated thereby shall be reasonably satisfactory to the Administrative Agent, the Banks, the Issuing Bank and their respective legal counsel.

ARTICLE V

AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank and the Issuing Bank that so long as any Commitment shall remain in effect or the principal of or interest on any Loan or LC Disbursement, any Fees or any other amounts payable under any Loan Document shall be unpaid or any Letter of Credit remains outstanding:

Section 5.01 Existence; Businesses and Properties. (a) The Borrower shall, and shall cause each Significant Subsidiary to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.03.

(b) The Borrower shall, and shall cause each Significant Subsidiary to, (i) do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names utilized in the conduct of its business, except where the failure so to obtain, preserve, renew, extend or maintain any of the foregoing would not result in a Material Adverse Effect; maintain and operate such business in substantially the manner in which it is presently conducted and operated, except as otherwise expressly permitted under this Agreement; (ii) comply in all material respects with all applicable laws, rules, regulations and orders of any Governmental Authority, whether now in effect or hereafter enacted if failure to comply with such requirements would result in a Material Adverse Effect; and (iii) at all times maintain and preserve all property material to the conduct of its business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; provided, however, that the Borrower or any Significant Subsidiary may cause the discontinuance of the operation or a reduction in the capacity of any of its facilities, or any element or unit thereof including, without limitation, real and personal properties, facilities, machinery and equipment, (i) if, in the judgment of the Borrower or such Significant Subsidiary, it is no longer advisable to operate the same, or to operate the same at its former capacity, and such discontinuance or reduction would not result in a Material Adverse Effect, or (ii) if the Borrower or a Significant Subsidiary intends to sell and dispose of its interest in the same in accordance with the terms of this Agreement and within a reasonable time shall endeavor to effectuate the same.

Section 5.02 Insurance. (a) The Borrower shall, and shall cause each Significant Subsidiary to, maintain insurance, to such extent and against such risks, as is customary with companies in the same or similar businesses and owning similar properties in the same general area in which it operates and (b) maintain such other insurance as may be required by law. All insurance required by this Section 5.02 shall be maintained with financially sound and reputable insurers or through self-insurance; provided, however, that the portion of such insurance constituting self-insurance shall be comparable to that usually maintained by companies engaged in the same or similar businesses and owning similar properties in the same general area in which

it operates and the reserves maintained with respect to such self-insured amounts are deemed adequate by its officer or officers responsible for insurance matters.

Section 5.03 Taxes and Obligations. The Borrower shall, and shall cause each Significant Subsidiary to, pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise which, if unpaid, might give rise to a Lien upon such properties or any part thereof; provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower shall, to the extent required by GAAP, have set aside on its books adequate reserves with respect thereto.

Section 5.04 Financial Statements, Reports, etc. The Borrower shall furnish to the Administrative Agent, each Bank and the Issuing Bank:

(a) within 105 days after the end of each fiscal year, consolidated and consolidating balance sheets and related statements of income and statements of cash flow, showing the financial condition of (i) Avista Utilities and (ii) the Borrower and its consolidated Subsidiaries, in each case as of the close of such fiscal year, and the results of each of their operations during such year, all (A) in the case of Avista Utilities, certified by one of the Borrower's Financial Officers as fairly presenting the financial condition and results of operations of Avista Utilities in accordance with GAAP consistently applied and (B) in the case of the Borrower and its consolidated subsidiaries, audited by Deloitte & Touche or other independent public accountants of recognized national standing acceptable to the Required Banks and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis (except as noted therein) in accordance with GAAP consistently applied;

(b) within 50 days after the end of each of the first three fiscal quarters of each fiscal year, consolidated and, to the extent otherwise available, consolidating balance sheets and related statements of income and statements of cash flow, showing the financial condition of (i) Avista Utilities and (ii) the Borrower and its consolidated subsidiaries, in each case as of the close of such fiscal quarter, and the results of each of their operations during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of Avista Utilities or the Borrower on a consolidated basis, as applicable, in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under (a) or (b) above, (i) a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations)

certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto, and (ii) a certificate of a Financial Officer setting forth in reasonable detail such calculations as are required to establish whether the Borrower was in compliance with Sections 6.05 and 6.06 on the date of such financial statements;

(d) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by it with the Securities and Exchange Commission, or any governmental authority succeeding to any of or all the functions of said Commission, or with any national securities exchange, or distributed to its share holders, as the case may be; and

(e) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Significant Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent, any Bank or the Issuing Bank may reasonably request.

Section 5.05 Litigation and Other Notices. The Borrower shall furnish to the Administrative Agent, each Bank and the Issuing Bank prompt notice of the following:

(a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;

(b) the filing or commencement of, or any written threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against the Borrower or any Subsidiary thereof which could reasonably be anticipated to result in a Material Adverse Effect; and

(c) any development that has resulted in, or could reasonably be anticipated to result in, a Material Adverse Effect.

Section 5.06 ERISA. (a) The Borrower shall, and shall cause each Significant Subsidiary to, comply in all material respects with the applicable provisions of ERISA and (b) the Borrower shall furnish to the Administrative Agent, each Bank and the Issuing Bank (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding $10,000,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the

Code) or to appoint a trustee to administer any Plan or Plans and (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC.

Section 5.07 Maintaining Records; Access to Properties and Inspections. The Borrower shall, and shall cause each Significant Subsidiary to, (a) maintain all financial records in accordance with GAAP and (b) permit any representatives designated by the Administrative Agent, any Bank or the Issuing Bank to visit and inspect its financial records and properties at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by the Administrative Agent, any Bank or the Issuing Bank to discuss its affairs, finances and condition with its chief financial officer, or other person designated by the chief financial officer, and independent accountants therefor.

Section 5.08 Use of Proceeds and Letters of Credit. The Borrower shall use the proceeds of the Loans and the Letters of Credit only for the purposes set forth in the preamble to this Agreement.

Section 5.09 Notes Credit Support. At any time that the Borrower's 9.75% Senior Notes due June 1, 2008, or any other medium term notes of the Borrower (other than notes issued under the First Mortgage), are required to be secured by any assets of the Borrower or any of its Subsidiaries or shall benefit from any Guarantee or other form of credit enhancement provided by the Borrower or any of its Subsidiaries (other than bonds issued under the First Mortgage), the Borrower shall cause the obligations under the Loan Documents to be secured by or to benefit from all such collateral and each such Guarantee or other form of credit enhancement on a ratable basis with the holders of such notes and any other creditors entitled to share therein.

ARTICLE VI

NEGATIVE COVENANTS

The Borrower covenants and agrees with each Bank and the Issuing Bank that so long as any Commitment shall remain in effect or the principal of or interest on any Loan or LC Disbursement, any Fees or any other amounts payable under any Loan Document shall be unpaid or any Letter of Credit remains outstanding:

Section 6.01 Liens. The Borrower shall not create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31,

2001, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments and the amount of Indebtedness secured thereby does not exceed the amount thereof as of the date hereof as set forth on Schedule 6.01;

(b) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition and (ii) such Lien does not apply to any other property or assets of the Borrower;

(c) the Lien of the First Mortgage and the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower to the extent such Liens, collectively, secure Indebtedness in an aggregate amount not exceeding the amount secured by the Lien of the First Mortgage on the date hereof as set forth in Schedule 6.01;

(d) Liens permitted under the First Mortgage or the Collateral Trust Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage or the Collateral Trust Mortgage) and any other Liens to which the Lien of the First Mortgage or the Collateral Trust Mortgage is expressly made subject, but only, in the case of Liens securing Indebtedness, to the extent the aggregate amount of Indebtedness secured thereby does not exceed the amount thereof as of the date hereof as set forth on Schedule 6.01;

(e) Liens for taxes, assessments or governmental charges not yet due or which are being contested in compliance with Section 5.03;

(f) carriers', warehousemen's, mechanic's, materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due or which are being contested in compliance with Section 5.03;

(g) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(h) Liens incurred or created in connection with or to secure the performance of bids, tenders, trade contracts (other than for Indebtedness), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of alike nature incurred in the ordinary course of business;

(i) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(j) Liens (i) which secure obligations not assumed by the Borrower, (ii) on account of which the Borrower has not and does not expect to pay interest directly or indirectly and (iii) which exist upon real estate or rights in or relating to real estate in respect of which the Borrower has a right-of-way or other easement for purposes of substations or transmission or distribution facilities;

(k) rights reserved to or vested in any federal, state or local governmental body or agency by the terms of any right, power, franchise, grant, license, contract or permit, or by any provision of law, to recapture or to purchase, or designate a purchase of or order the sale of, any property of the Borrower or to terminate any such right, power, franchise, grant, license, contract or permit before the expiration thereof;

(l) Liens of judgments covered by insurance, or upon appeal and covered by bond, or to the extent not so covered not exceeding at one time $10,000,000 in aggregate amount;

(m) any Liens, moneys sufficient for the discharge of which shall have been deposited in trust with the trustee or mortgagee under the instrument evidencing such Lien, with irrevocable authority of such trustee or mortgagee to apply such moneys to the discharge of such Lien to the extent required for such purpose;

(n) rights reserved to or vested in any federal, state or local governmental body or agency or other public authority to control or regulate the business or property of the Borrower;

(o) any obligations or duties affecting the property of the Borrower to any federal, state or local governmental body or agency or other public authority with respect to any authorization, permit, consent or license of such body, agency or authority, given in connection with the purchase, construction, equipping, testing and operation of the Borrower's utility property;

(p) with respect to any property which the Borrower may hereafter acquire, any exceptions or reservations therefrom existing at the time of such acquisition or any terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in the deeds of other instruments, respectively, under and by virtue of which the Borrower shall hereafter acquire the same, none of which materially impairs the use of such property for the purposes for which it is acquired by the Borrower;

(q) leases and subleases entered into in the ordinary course of business;

(r) banker's Liens and other Liens in the nature of a right of setoff;

(s) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth in clauses (a)-(d) above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property;

(t) security deposits or amounts paid into trust funds for the reclamation of mining properties;

(u) restrictions on transfer or use of properties and assets, first rights of refusal, and rights to acquire properties and assets granted to others;

(v) non-consensual equitable Liens on the Borrower's tenant-in-common or other interest in joint projects;

(w) Liens on the Borrower's tenant-in-common or other interest in joint projects incurred by the project sponsor without the express consent of the Borrower to such incurrence;

(x) cash collateral contemplated under Section 2.05(i);

(y) Liens on receivables and related properties or interests therein; and

(z) Liens not otherwise permitted under clauses (a)-(y) above (including Liens referred to in such clauses to the extent securing Indebtedness in excess of the amounts permitted thereunder), provided that the aggregate amount of Indebtedness secured by such Liens (exclusive of amounts permitted under such other clauses) does not exceed $150,000,000.

Section 6.02 Sale-Leaseback Transactions. The Borrower shall not enter into any Sale-Leaseback if as a result thereof the aggregate outstanding principal amount of Attributable Debt outstanding in connection with all Sale-Leasebacks entered into after the date hereof would exceed 5% of the total tangible assets of Avista Utilities as of the date of the financial statements most recently delivered under Section 5.04(a) or (b) at such time.

Section 6.03 Mergers, Consolidations and Acquisitions. The Borrower shall not, and shall not permit any Significant Subsidiary (without the consent of the Required Banks, not to be unreasonably withheld) to, merge with or into or consolidate with any other person, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's or such Significant Subsidiary's business, except that, if at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing, (a) the Borrower or any Significant Subsidiary may merge with or into or consolidate with the Borrower or any Subsidiary provided that, in any transaction involving the Borrower, the Borrower is the surviving person, (b) the Borrower or any Significant Subsidiary may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets, (c) the Borrower may merge with or into or consolidate with any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, (A) if the Borrower is the surviving person, the senior secured long-term debt rating of the Borrower shall be at least BBB- or higher by S&P and Baa3 or higher by Moody's immediately after such merger or consolidation and (B) if the Borrower is not the surviving person, (1) the surviving

person shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents and (2) the senior secured long-term debt rating of the surviving person shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation and (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, (A) the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied and (B) if the Borrower is not the surviving person, the surviving person shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, (d) the Borrower may purchase, lease or otherwise acquire all or substantially all of the assets of any other person (including by purchase or other acquisition of all or substantially all of the capital stock of such person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied, (e) any Significant Subsidiary may merge with or into or consolidate with any other person so long as the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (f) any Significant Subsidiary may purchase, lease or otherwise acquire all or substantially all of the assets of any other person (including by purchase or other acquisition of all or substantially all of the capital stock of such person) so long as the assets being acquired (or the Significant Subsidiary's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied; provided, however, that notwithstanding anything in this Section 6.03 to the contrary, this Section 6.03 shall not be deemed to prohibit any merger, consolidation or acquisition involving a Significant Subsidiary (and not also the Borrower) if, after giving effect to the consummation of such transaction, such Significant Subsidiary shall have or be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

Section 6.04 Disposition of Assets. The Borrower shall not, and shall not permit any Significant Subsidiary (without the consent of the Required Banks, not to be unreasonably withheld) to, sell, lease, transfer, assign or otherwise dispose of any assets or any interest therein (whether now owned or hereafter acquired), except (a) dispositions of obsolete or retired property not used or useful in its business, (b) grants of Liens by the Borrower permitted under Section 6.01 and grants of Liens by Significant Subsidiaries, (c) disposition by the Borrower of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (d) disposition by the Borrower of all or any portion of its transmission assets in one or more RTO Transactions, (e) disposition by the Borrower of its

interests in the Colstrip Project and related assets, (f) disposition by Avista Energy, Inc. of its assets in the ordinary course of its trading operations, (g) disposition of receivables and related properties or interests therein, (h) other dispositions of assets (not otherwise permitted by clauses (a)-(g) of this Section) made in the ordinary course of business not exceeding in any fiscal year 5% of the assets of the Borrower and its Subsidiaries as of the end of the prior fiscal year, computed and consolidated in accordance with GAAP consistently applied, and (i) other dispositions of assets (not otherwise permitted by clauses (a)-(h) of this Section) not exceeding in any fiscal year 10% of the assets of the Borrower and its Subsidiaries as of the end of the prior fiscal year, computed and consolidated in accordance with GAAP consistently applied; provided, however, that notwithstanding anything in this Section 6.04 to the contrary, this Section 6.04 shall not be deemed to prohibit any disposition by a Significant Subsidiary if, after giving effect to the consummation of such transaction, such Significant Subsidiary shall have or be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

Section 6.05 Consolidated Total Debt to Consolidated Total Capitalization Ratio. The Borrower shall not permit the ratio of Consolidated Total Debt to Consolidated Total Capitalization to be, at any time, greater than 0.65 to 1.00.

Section 6.06 Avista Utilities Interest Coverage Ratio. The Borrower shall not permit the ratio of Avista Utilities EBITDA to Avista Utilities Interest Expense to be less than 1.6 to 1 for (a) the two-fiscal-quarter period ending March 31, 2002, (b) the three-fiscal-quarter period ending June 30, 2002 or (c) any four-fiscal-quarter period ending thereafter.

Section 6.07 Public Utility Regulatory Borrowing Limits. The Borrower shall not incur actual borrowings or commitments or issued and outstanding debt of the Borrower in excess of the amount authorized by statute or by orders of public utility commissions, as in effect from time to time.

Section 6.08 Avista Energy Guarantees. The Borrower shall not permit itself to be obligated, at any time, under Guarantees of obligations of Avista Energy, Inc. under which the Borrower's liability, in the aggregate for all such Guarantees, might exceed $50,000,000.

Section 6.09 Investments. The Borrower shall not make any new Investments in any Subsidiary, except for (a) Investments constituting Guaranties permitted under Section 6.08 and (b) other Investments (including Guaranties not permitted under Section 6.08) in an aggregate amount (calculated, in the case of any acquisition or Investment, based on the amount of consideration payable, and obligations incurred, by the Borrower for such acquisition or Investment) not exceeding $75,000,000 for 2002 and 2003 combined, net of any distributions or other amounts received by the Borrower during such period on Investments in Subsidiaries.

ARTICLE VII

EVENTS OF DEFAULT

In case of the happening (and during the continuance) of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the Borrowings or the issuance of any Letter of Credit, or any representation or warranty contained in any certificate or other document furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made or deemed made;

(b) default shall be made in the payment of any principal of any Loan or LC Disbursement when and as the same shall become due and payable, whether at the scheduled maturity date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or LC Disbursement or any Fee or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in Section 5.01(a), 5.05, 5.07(b) or 5.08 or in Article VI;

(e) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in any Loan Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent, any Bank or the Issuing Bank to the Borrower;

(f) the Borrower or any Significant Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness when the aggregate unpaid principal amount is in excess of $25,000,000, when and as the same shall become due and payable (after expiration of any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement (after expiration of any applicable grace period) contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary; and such proceeding or petition shall continue undismissed, or an

order or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days;

(h) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) a final judgment or judgments shall be rendered against the Borrower, any Significant Subsidiary or any combination thereof for the payment of money with respect to which an aggregate amount in excess of $25,000,000 is not covered by insurance and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Significant Subsidiary to enforce any such judgment;

(j) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(1) of the Code), shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the Borrower to the PBGC or to a Plan in an aggregate amount exceeding $25,000,000 and, within 30 days after the reporting of any such Reportable Event to the Administrative Agent or after the receipt by the Administrative Agent of the statement required pursuant to Section 5.06, the Administrative Agent shall have notified the Borrower in writing that (i) the Required Banks have made a determination that, on the basis of such Reportable Event or Reportable Events or the failure to make a required payment, there are reasonable grounds (A) for the termination of such Plan or Plans by the PBGC, (B) for the appointment by the appropriate United States District Court of a trustee to administer such Plan or Plans or (C) for the imposition of alien in favor of a Plan and (ii) as a result thereof an Event of Default exists hereunder; or a trustee shall be appointed by a United States District Court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans;

(k) any Loan Document, at any time after its execution and delivery and for any reason, shall cease to be in full force and effect, or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect; or the Borrower denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document;

(l) a Change in Control shall occur;

(m) the Lien purported to be created in any substantial portion of the property of the Borrower purported to be made subject thereto pursuant to the First Mortgage shall at any time fail to be a valid, perfected, first priority Lien (subject to Liens permitted to exist by the terms of the First Mortgage) securing the obligations of the Borrower under the First Mortgage (including the obligations of the First Mortgage Bond) and such failure shall constitute or have resulted in a "Completed Default" under the First Mortgage; or

(n) the mortgage title insurance policy referred to in Section 4.02(a)(ix) or any other mortgage title insurance policy purported to be issued for the benefit of the trustee under the First Mortgage, at any time after its issuance and for any reason, shall cease to be in full force and effect, or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect; or the issuer of such policy denies that it has any or further liability or obligation under such policy, or purports to revoke, terminate or rescind such policy.

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Administrative Agent, at the request of the Required Banks, shall, by notice to the Borrower, take any or all of the following actions, at the same or different times: (i) terminate forthwith the Commitments, (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon (A) the Commitments will automatically be terminated and (B) the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding, and (iii) deliver to the Borrower notice demanding redemption of the First Mortgage Bond; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE VIII

THE ADMINISTRATIVE AGENT

Section 8.01 Appointment and Powers. In order to expedite the various transactions contemplated by the Loan Documents, The Bank of New York is hereby appointed to act as Administrative Agent on behalf of the Banks and the Issuing Bank. Each of the Banks and the Issuing Bank hereby irrevocably authorizes and directs the Administrative Agent to take such action on behalf of such Bank or the Issuing Bank under the terms and provisions of the Loan

Documents, and to exercise such powers thereunder as are specifically delegated to or required of the Administrative Agent by the terms and provisions thereof, together with such powers as are reasonably incidental thereto. The Administrative Agent is hereby expressly authorized on behalf of the Banks and the Issuing Bank, without hereby limiting any implied authority, (a) to receive on behalf of each of the Banks and the Issuing Bank any payment of principal of or interest on the Loans outstanding hereunder, LC Reimbursements and all other amounts accrued under the Loan Documents paid to the Administrative Agent, and to distribute to each Bank and the Issuing Bank its proper share of all payments so received as soon as practicable; (b) to give notice promptly on behalf of each of the Banks and the Issuing Bank to the Borrower of any Event of Default of which the Administrative Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute promptly to each Bank and the Issuing Bank copies of all notices, agreements and other material as provided for in the Loan Documents as received by such Administrative Agent.

Section 8.02 Limitation on Liability. Neither the Administrative Agent nor any of its directors, officers, employees or agents shall be liable to any Bank or the Issuing Bank as such for any action taken or omitted by any of them under the Loan Documents except for its or his own gross negligence or willful misconduct, or be responsible for any statement, warranty or representation therein or the contents of any document delivered in connection therewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of the Loan Documents. The Administrative Agent shall not be responsible to the Banks or the Issuing Bank for the due execution, genuineness, validity, enforceability or effectiveness of the Loan Documents or any other instrument to which reference is made therein. The Administrative Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks and the Issuing Bank. The Administrative Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Administrative Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure or delay in performance or breach by any Bank or the Issuing Bank of any of its obligations under the Loan Documents or to any Bank or the Issuing Bank on account of the failure of or delay in performance or breach by any other Bank, the Issuing Bank or the Borrower of any of their respective obligations thereunder or in connection therewith. The Administrative Agent may execute any of its duties under the Loan Documents by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Administrative Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or Administrative Agent shall not release the Administrative Agent from its obligation to perform or cause to be performed the delegated duty. The Administrative Agent shall be entitled to advice of legal counsel selected by it with respect to all matters arising under the Loan Documents and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

Section 8.03 Other Transactions with the Borrower. The Administrative Agent and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or other Affiliate thereof as if it were not the Administrative Agent.

Section 8.04 Reimbursement; Indemnification. Each Bank agrees (a) to reimburse the Administrative Agent in the amount of such Bank's Pro Rata Share of any expenses incurred for the benefit of the Banks by the Administrative Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (b) to indemnify and hold harmless the Administrative Agent and any of its directors, officers, employees or agents, on demand, in the amount of its Pro Rata Share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Administrative Agent or any of them in any way relating to or arising out of the Loan Documents or any action taken or omitted by it or any of them under the Loan Documents, to the extent not reimbursed by the Borrower; provided, however, that no Bank shall be liable to the Administrative Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Administrative Agent or any of its directors, officers, employees or agents.

Section 8.05 Absence of Reliance. Each of the Banks and the Issuing Bank acknowledges that it has, independently and without reliance upon the Administrative Agent, the Issuing Bank or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each of the Banks and the Issuing Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent, the Issuing Bank or any other Bank based on such documents and information as it shall deem appropriate at the time, continue to make its own decisions in taking or not taking action under or based upon the Loan Documents, any related agreement or any document furnished thereunder.

Section 8.06 Resignation of the Administrative Agent. The Administrative Agent may at any time give notice of its resignation to the Issuing Bank, the Banks and the Borrower. Upon receipt of any such notice of resignation, the Required Banks may, with the consent of the Borrower (which consent shall not be unreasonably withheld and shall not be required during an Event of Default), appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Issuing Bank and the Banks and after consultation with the Issuing Bank, the Banks and the Borrower, appoint a successor Administrative Agent. Upon the acceptance by any Person of its appointment as a successor Administrative Agent, such Person shall thereupon succeed to and become vested with all the rights, powers, privileges, duties and obligations of the retiring Administrative Agent and the retiring Administrative Agent shall be discharged from its duties and obligations as Administrative Agent under the Loan Documents. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Article VIII shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

Section 8.07 Syndication Agent; Documentation Agents; Managing Agent; Co-Agents. None of the Syndication Agent, the Documentation Agents, the Managing Agent or the Co-Agents shall have any rights, powers, obligations, liabilities, responsibilities or duties under the Loan Document other than those applicable to all Banks as such. Without limiting the foregoing, none of the Banks identified as "Syndication Agent," "Documentation Agent," "Managing Agent" or "Co-Agent" shall have or be deemed to have any fiduciary relationship with any Bank. Each of the Banks and the Issuing Bank acknowledges that it has not relied, and will not rely, on any of the Banks so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE IX

MISCELLANEOUS

Section 9.01 Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or sent by telecopy, graphic scanning or other telegraphic communications equipment of the sending party, as follows:

(a) if to the Borrower, to:

Avista Corporation
East 1411 Mission Avenue (99202)
P.O. Box 3727
Spokane, Washington 99220
Attention: Senior Vice President and Chief Financial Officer
Telecopy: 509-495-4879

(b) if to the Administrative Agent or the Issuing Bank, to:

The Bank of New York
One Wall Street
Agency Function Administration
18th Floor
New York, New York 10286
Attention: Sandra Morgan
Telecopy: 212-635-6365 or 6366 or 6376

with a copy to:

The Bank of New York
Energy Industries Division
One Wall Street
19th Floor
New York, New York 10286
Attention: Steven Kalachman
Telecopy: 212-635-7923 or 7924

(c) if to a Bank, to it at its address (or telecopy number) set forth in Schedule 2.01 or in the Assignment and Assumption pursuant to which such Bank shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or other telegraphic communications equipment of the sender, or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

Section 9.02 Survival of Agreement. All covenants, agreements, representations and warranties, including, without limitation, any indemnities and reimbursement obligations, made by the Borrower in the Loan Documents and in the certificates or other instruments prepared or delivered in connection therewith or pursuant thereto shall be considered to have been relied upon by the Banks and the Issuing Bank and shall survive the making by the Banks of the Loans and issuance by the Issuing Bank of any Letters of Credit, and the execution and delivery to the Banks of any Notes evidencing such Loans, regardless of any investigation made by the Banks or the Issuing Bank, or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated.

Section 9.03 Binding Effect; Successors and Assigns. This Agreement and the amendment and restatement reflected hereby shall become effective when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank and the Issuing Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent, the Issuing Bank and each Bank and their respective successors and permitted assigns. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Administrative Agent, the Issuing Bank or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

Section 9.04 Successors and Assigns. (a) Subject to Section 6.03, the Borrower may not assign or delegate any of its rights or duties under any of the Loan Documents without the prior written consent of each of the Banks and the Issuing Bank.

(b) Each Bank (including the Administrative Agent or the Issuing Bank when acting as a Bank) may assign to one or more assignees all or a portion of its interests, rights and obligations under the Loan Documents (including, without limitation, all or a portion of its Commitment and the same portion of the applicable Loan or Loans at the time owing to it); provided, however, that (i) except in the case of an assignment to a Bank or Affiliate of a Bank, the Borrower and the Administrative Agent must give their prior written consent to such

assignment (which consents shall not be unreasonably withheld), provided that the consent of the Borrower shall not be required if an Event of Default shall exist, (ii) in the case of an assignment to a person other than a Bank of all or a portion of a Bank's Commitment or its obligation in respect of its LC Exposure, the Issuing Bank must give its prior written consent to such assignment (which consent shall not be unreasonably withheld), (iii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.12, 2.13(a) or 2.18 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 (or, if less, the total amount of their Commitments), (v) the parties to each such assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption and a processing and recordation fee of $3,500 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Administrative Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (d) of this Section 9.04, from and after the effective date specified in each Assignment and Assumption, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Bank under the Loan Documents and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under the Loan Documents (and, in the case of an Assignment and Assumption covering all or the remaining portion of an assigning Bank's rights and obligations under the Loan Documents, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.14, 2.18 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) The Administrative Agent shall maintain a copy of each Assignment and Assumption delivered to it including the recordation of the names and addresses of the Banks, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The Administrative Agent, the Issuing Bank and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of the Loan Documents. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Bank and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, to the extent required, the written consent of the Borrower, the Administrative Agent and the Issuing Bank to such assignment, the Administrative Agent shall (i) accept such Assignment and Assumption, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Issuing Bank and the Borrower. Upon the request of the assignee, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent, a new Note or Notes to the order of such

assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Assumption and, if the assigning Bank has retained a Commitment, upon the request of the assigning Bank, the Borrower shall execute and deliver a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Canceled Notes shall be returned to the Borrower.

(e) Each Bank may without the consent of the Borrower, the Issuing Bank or the Administrative Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under the Loan Documents (including all or a portion of its Commitment and the Loans owing to it and any Notes held by it); provided, however, that (i) such Bank's obligations under the Loan Documents shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.12, 2.14 and 2.18 to the same extent as if they were Banks (provided, that the amount of such benefit shall be limited to the amount in respect of the interest sold to which the seller of such participation would have been entitled had it not sold such interest) and (iv) the Borrower, the Administrative Agent, the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under the Loan Documents, and such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of the Loan Documents (other than amendments, modifications or waivers (i) decreasing any Fees or the amount of principal of or the rate at which interest is payable on the Loans or LC Disbursements, (ii) extending any scheduled date for the payment of Fees or principal of or interest on Loans or LC Disbursements, (iii) extending the expiration date of the Commitments or extending the expiration date of any Letter of Credit to a date after the expiration date of the Commitments or (iv) releasing the First Mortgage Bond or releasing all or substantially all of the collateral therefor.

(f) Any Bank or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Bank by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information.

(g) Notwithstanding anything to the contrary contained herein, any Bank (a "Granting Bank") may grant to a special purpose funding vehicle (an "SPC") the option to fund all or any part of any Loan that such Granting Bank would otherwise be obligated to fund pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to fund any Loan, and (ii) if an SPC elects not to exercise such option or otherwise fails to fund all or any part of such Loan, the Granting Bank shall be obligated to fund such Loan pursuant to the terms hereof. The funding of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent, and as if, such Loan were funded by such Granting Bank. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or payment under the Loan Documents for which a Bank would otherwise be liable for so long as,

and to the extent, the Granting Bank provides such indemnity or makes such payment. Notwithstanding anything to the contrary contained in this Agreement, any SPC may disclose on a confidential basis any non-public information relating to its funding of Loans to any rating agency, commercial paper dealer or provider of any surety or guarantee to such SPC. This paragraph may not be amended without the prior written consent of each Granting Bank, all or any part of whose Loan is being funded by an SPC at the time of such amendment.

(h) Any Bank may at any time assign for security purposes all or any portion of its rights under the Loan Documents to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations thereunder.

Section 9.05 Expenses; Indemnity, Damage Waiver. (a) The Borrower agrees to pay all reasonable out-of-pocket expenses (including the reasonable fees, charges and disbursements of internal or external legal counsel) (i) incurred by the Administrative Agent in connection with the preparation of the Loan Documents or in connection with any amendments, modifications or waivers of the provisions thereof (whether or not the transactions thereby contemplated shall be consummated), (ii) incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder, or (iii) incurred by the Administrative Agent, any Bank or the Issuing Bank in connection with the enforcement or protection of their rights in connection with the Loan Documents or any Loan or any Letter of Credit or participation therein.

(b) The Borrower agrees that it shall indemnify the Administrative Agent, the Issuing Bank and the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

(c) The Borrower agrees to indemnify the Administrative Agent, the Issuing Bank and each Bank and each of their respective directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans and of the Letters of Credit (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit) or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

(d) To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for

special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof; provided that such waiver shall not, as to any Indemnitee, apply to special, indirect or consequential damages to the extent resulting from, or punitive damages awarded on account of, conduct by such Indemnitee that is determined by a court of competent jurisdiction by final and nonappealable judgment to have constituted gross negligence or willful misconduct by such Indemnitee.

(e) The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loans, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, the Issuing Bank or any Bank. All amounts due under this Section 9.05 shall be payable on written demand therefor.

Section 9.06 Right of Setoff. If an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each of the Banks and the Issuing Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank or the Issuing Bank (or bank Controlling such Bank or the Issuing Bank) to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank or the Issuing Bank, irrespective of whether or not such Lender or the Issuing Bank shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower are owed to a branch or office of such Lender or the Issuing Bank different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Bank and the Issuing Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank or the Issuing Bank may have. Any Bank or the Issuing Bank, as the case may be, shall promptly notify the Borrower after exercising its rights under this Section.

Section 9.07 Applicable Law. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

Section 9.08 Waivers; Amendment. (a) No failure or delay of the Administrative Agent, the Issuing Bank or any Bank in exercising any power or right under the Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Bank and the Banks hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall

be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither the Loan Documents nor any provision thereof (excluding letter of credit applications, which may be waived, amended or modified by agreement of the Borrower and the Issuing Bank) may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) without the consent of the applicable Bank, (A) decrease the principal of or the rate of interest on such Bank's Loans or the Fees payable to such Bank, (B) extend the date for any scheduled payment of principal of or interest on such Bank's Loans or the Fees payable to such Bank, or (C) increase the amount or extend the expiration date of such Bank's Commitment, or (ii) without the consent of each Bank, (A) decrease the principal of or the rate of interest on any LC Disbursement, (B) extend the date for any scheduled payment of principal of or interest on any LC Disbursement, (C) extend the expiration date of any Letter of Credit to a date after the Expiration Date, (D) release the First Mortgage Bond or release all or substantially all of the collateral therefor or (E) amend or modify the provisions of Section 2.15, the provisions of this Section, the definition of "Required Banks", or any other provision requiring the consent or agreement of each of the Banks; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank under the Loan Documents without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

Section 9.09 Interest Rate Limitation. Notwithstanding anything herein or in any Notes to the contrary, if at any time the applicable interest rate, together with all fees and charges which are treated as interest under applicable law (collectively the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken or reserved by any Bank, shall exceed the maximum lawful rate (the "Maximum Rate") which maybe contracted for, charged, taken, received or reserved by such Bank in accordance with applicable law, the rate of interest payable under any Note held by such Bank, together with all Charges payable to such Bank, shall be limited to the Maximum Rate.

Section 9.10 Entire Agreement. Each Loan Document constitutes the entire contract between the parties relative to the subject matter thereof, and any previous agreement among the parties with respect to the subject matter thereof is superseded by such Loan Document. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

Section 9.11 Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative,

Administrative Agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

Section 9.12 Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 9.13 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract, and shall become effective as provided in Section 9.03.

Section 9.14 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

Section 9.15 Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, Issuing Bank or any other Bank may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower or its properties in the courts of any jurisdiction.

(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

WITNESS the due execution hereof as of the date first above written.

AVISTA CORPORATION

By:

Name:
Title:

THE BANK OF NEW YORK,
as Administrative Agent, Issuing Bank
and a Bank

By:

Name:
Title:

UNION BANK OF CALIFORNIA, N.A.,
as Syndication Agent and a Bank

By:

Name:
Title:

FLEET NATIONAL BANK,
as Documentation Agent and a Bank

By:

Name:
Title:

WELLS FARGO BANK,
as Documentation Agent and a Bank

By:

Name:
Title:

U.S. BANK, NATIONAL ASSOCIATION,
as Managing Agent and a Bank

By:

Name:
Title:

KEYBANK,
as Co-Agent and a Bank

By:

Name:
Title:

WASHINGTON MUTUAL BANK,
as Co-Agent and a Bank

By:

Name:
Title:

BANK HAPOALIM, B.M.,
as a Bank

By:

Name:
Title:

By:

Name:
Title:

EXHIBIT 4(e)

==========

RECEIVABLES PURCHASE AGREEMENT

Dated as of May 29, 2002

Among

AVISTA RECEIVABLES CORP.

as Seller

and

AVISTA CORPORATION

as initial Servicer

and

EAGLEFUNDING CAPITAL CORPORATION

as Conduit Purchaser

and

FLEET NATIONAL BANK

as Committed Purchaser

and

FLEET SECURITIES, INC.

as Administrator

==========

RECEIVABLES PURCHASE AGREEMENT

Dated as of May 29, 2002

THIS IS A RECEIVABLES PURCHASE AGREEMENT, among AVISTA RECEIVABLES CORP., a Washington corporation ("Seller"), AVISTA CORPORATION, a Washington corporation ("Parent"), as initial Servicer, EAGLEFUNDING CAPITAL CORPORATION, a Delaware corporation (the "Conduit Purchaser"), FLEET NATIONAL BANK, a national banking association (together with any other financial institution hereafter party hereto, each a "Committed Purchaser", and collectively with the Conduit Purchaser, the "Purchasers") and FLEET SECURITIES, INC., a New York corporation ("Fleet Securities"), as administrator for Purchasers (in such capacity, the "Administrator"). Unless otherwise indicated, capitalized terms used in this Agreement are defined in Appendix A.

Background

1. The Originator is engaged in the business of generating, transmitting and distributing energy, as well as other energy-related businesses.

2. Seller is a single purpose corporation formed for the purpose of purchasing, and accepting contributions of, Receivables generated by the Originator.

3. Seller has, and expects to have, Pool Receivables in which Seller, subject to the terms and conditions of this Agreement, intends to sell an undivided interest. Seller has requested Purchasers, and Conduit Purchaser may (and if Conduit Purchaser does not, Committed Purchasers shall), subject to the terms and conditions contained in this Agreement, fund the purchase of such undivided interest, referred to herein as the Asset Interest, from Seller from time to time during the term of this Agreement.

4. Seller and Purchasers also desire that, subject to the terms and conditions of this Agreement, certain of the daily Collections in respect of the Asset Interest be reinvested in Pool Receivables, which reinvestment shall constitute part of the Asset Interest.

5. Parent has been requested, and is willing, to act as initial Servicer.

6. Fleet Securities has been requested, and is willing, to act as the Administrator.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

PURCHASES AND REINVESTMENTS

SECTION 1.01. Commitment to Purchase; Limits on Purchasers' Obligations. Upon the terms and subject to the conditions of this Agreement, from time to time prior to the Termination Date, Seller may request that Administrator, for the benefit of Purchasers, purchase from Seller an undivided ownership interest in the Pool Assets (each being a "Purchase") and Conduit Purchaser may, in its sole discretion, fund each Purchase. If Conduit Purchaser elects not to fund such Purchase, each Committed Purchaser shall fund its Percentage of such Purchase, and the Administrator, for the benefit of Purchasers, shall make such Purchase with the proceeds of such funding by the Committed Purchasers; provided that no Purchase shall be funded by any Purchaser if, after giving effect thereto, either (a) the Capital after giving effect to such Purchase would exceed $100,000,000 (the "Purchase Limit"), as such Purchase Limit may be decreased from time to time as provided in Section 1.05, or (b) the Asset Interest would exceed 100% (the "Allocation Limit"); and provided further that each Purchase made pursuant to this Section 1.01 shall have a purchase price of at least $1,000,000.

SECTION 1.02. Purchase Procedures; Assignment of Purchaser's Interests.

(a) Notice of Purchase. Each Purchase from Seller shall be made on notice from Seller to the Administrator received by the Administrator not later than 11:00 a.m. (Boston, Massachusetts time) on the third Business Day next preceding the date of such proposed Purchase. Each such notice of a proposed Purchase shall be substantially in the form of Exhibit 1.02(a) (each a "Purchase Notice"), and shall specify the desired amount and date of such Purchase, which shall be a Business Day, provided that there shall be no more than one Purchase in any calendar week and if the Purchase occurs in the same calendar week as a Settlement Date, such Purchase shall be funded on such Settlement Date.

(b) Funding of Purchase. On the date of each Purchase, Conduit Purchaser (or, if Conduit Purchaser has elected not to fund such Purchase, each Committed Purchaser) shall, upon satisfaction of the applicable conditions set forth in Article V, make available to the Administrator at the Administrator's Office the amount of its Purchase in immediately available funds, and after receipt by the Administrator of such funds, the Administrator shall wire-transfer immediately available funds to an account designated by Seller in the related Purchase Notice.

(c) Assignment of Asset Interest. Seller hereby sells, assigns, grants and transfers to Administrator, for the benefit of Purchasers, the Asset Interest.

SECTION 1.03. Reinvestments of Certain Collections; Payment of Remaining Collections. (a) As of the close of business on each day during the period from the date hereof to the Termination Date, Servicer shall, out of all Collections received on such day:

(i) determine the portion of Collections attributable on any day to the Asset Interest by multiplying (x) the amount of all Collections received on such day times (y) the Asset Interest;

(ii) out of the portion of Collections allocated to the Asset Interest pursuant to clause (i), set aside and hold in trust for Purchasers an amount equal to the sum of the estimated amount of Earned Discount accrued in respect of the Capital (based on rate information provided by the Administrator pursuant to Section 2.04), the accrued Fees,

all other amounts due to Purchasers, the Administrator, the Affected Parties or the Indemnified Parties hereunder (other than the Capital) and the Purchasers' Share of Servicer's Fee (in each case, accrued through such day) and not so previously set aside;

(iii) apply the Collections allocated to the Asset Interest pursuant to clause (i) and not set aside pursuant to clause (ii) to the purchase from Seller of ownership interests in Pool Assets (each such purchase being a "Reinvestment"); provided that (A) if there is an Excess Amount after giving effect to other Collections previously set aside pursuant to this clause (iii) and then so held, then Servicer shall not make a Reinvestment to such extent, but shall set aside and hold for the benefit of Purchasers, a portion of such Collections which, together with other Collections previously set aside and then so held, shall equal the Excess Amount; and (B) if the conditions precedent to Reinvestment in Section 5.02 are not satisfied, then Servicer shall not reinvest any of such Collections;

(iv) pay to Seller (A) the portion of Collections not allocated to the Asset Interest pursuant to clause (i), less Seller's Share of Servicer's Fee accrued through such day, and (B) the Collections applied to Reinvestment pursuant to clause (iii); and

(v) out of the portion of Collections not allocated to the Asset Interest pursuant to clause (i), pay to Servicer Seller's Share of Servicer's Fee accrued through such day.

(b) Unreinvested Collections. Servicer shall set aside and hold in trust for the benefit of Purchasers all Collections which pursuant to clause (ii) or (iii) of Section 1.03(a) may not be reinvested in Pool Assets; provided that unless the Administrator shall request it to do so in writing, Servicer shall not be required to hold Collections that have been set aside in a separate deposit account containing only such Collections. If, prior to the date when such Collections are required to be paid to the Administrator pursuant to Section 3.01, the amount of Collections set aside pursuant to clause (iii) of Section 1.03(a) exceeds the Excess Amount, if any, and the conditions precedent to Reinvestment set forth in Section 5.02 are satisfied, then Servicer shall apply such Collections (or, if less, a portion of such Collections equal to the amount of such excess) to the making of a Reinvestment.

SECTION 1.04. Asset Interest. (a) Components of Asset Interest. On any date the Asset Interest will represent Administrator's (for the benefit of Purchasers) combined undivided percentage ownership interest in (i) all Pool Receivables, (ii) all Related Security with respect to such Pool Receivables, (iii) all of Seller's right and claims under the Purchase Agreement, (iv) all Lock-Boxes and Lock-Box Accounts, all funds and investments therein and all related agreements between the Seller or the Originator and the Lock-Box Banks, (v) all Collections with respect to, and other proceeds of, the foregoing and (vi) all books and records (including computer disks, tapes and software) evidencing or relating to any of the foregoing, in each case, whether now owned by Seller or hereafter acquired or arising, and wherever located (all of the foregoing, collectively referred to as "Pool Assets").

(b) Computation of Asset Interest. On any date of computation, the Asset Interest will be equal to a percentage, expressed as the following fraction:

$$\frac{C}{NPB \times (1 - RRP)}$$

where:

C = the Capital on such date.

RRP = the Required Reserve Percentage on such date.

NPB = the Net Pool Balance on such date;

provided, however, that from and after the Termination Date, the Asset Interest will be 100%.

(c) Frequency of Computation. The Asset Interest shall be computed as of the Cut-Off Date for each Settlement Period. In addition, the Administrator may require Servicer to provide a Servicer Report for purposes of computing the Asset Interest as of any other date, and Servicer agrees to do so within five Business Days of its receipt of the Administrator's request in writing.

SECTION 1.05. Voluntary Termination of Purchase and Reinvestment Obligations or Reduction of Purchase Limit. Seller may, upon at least 60 days' prior written notice to the Administrator, either (a) terminate Conduit Purchaser's option to fund, and each Committed Purchaser's commitment to fund, Purchases and Reinvestments hereunder, or (b) reduce the Purchase Limit to an amount not less than $25,000,000; provided, however, that (i) each partial reduction of the Purchase Limit shall be in an amount equal to $1,000,000 or an integral multiple thereof, and (ii) after giving effect to such reduction, the Capital will not exceed the Purchase Limit as so reduced. Any such reduction of the Purchase Limit shall reduce each Committed Purchaser's Commitment on a pro rata basis. The Purchase Limit may be increased upon the request of Seller and the written consent of the Administrator and each Purchaser thereto, which consent may be granted or withheld in their sole discretion and may be subject to such conditions as they may require.

ARTICLE II

COMPUTATIONAL RULES

SECTION 2.01. Computation of Capital. In making any determination of Capital, the following rules shall apply:

(a) Capital shall not be considered reduced by any allocation, setting aside or distribution of any portion of Collections unless such Collections shall have been actually delivered to the Administrator pursuant hereto for application to the Capital; and

(b) Capital shall not be considered reduced by any distribution of any portion of Collections if at any time such distribution is rescinded or must otherwise be returned for any reason.

SECTION 2.02. Computation of Concentration Limit. In the case of any Obligor that is (a) a Subsidiary of any other Obligor, (b) a parent of any other Obligor, or (c) a Subsidiary of the same parent as any other Obligor, the Concentration Limit and the aggregate Unpaid Balance of Pool Receivables of such Obligors shall be calculated as if such Obligors were one Obligor.

SECTION 2.03. Computation of Earned Discount. In making any determination of Earned Discount, the following rules shall apply:

(a) no provision of this Agreement shall require the payment or permit the collection of Earned Discount in excess of the maximum permitted by Applicable Law; and

(b) Earned Discount for any period shall not be considered paid by any distribution if at any time such distribution is rescinded or must otherwise be returned for any reason.

SECTION 2.04. Estimates of Earned Discount Rate, Fees, Etc. For purposes of determining the amounts required to be set aside by Servicer pursuant to Section 1.03, the Administrator shall notify Servicer from time to time of the Earned Discount Rate applicable to the Capital and the rates at which fees and other amounts are accruing hereunder. It is understood and agreed that (i) the Earned Discount Rate may change from time to time, (ii) certain rate information provided by the Administrator to Servicer shall be based upon the Administrator's good faith estimate, (iii) the amount of Earned Discount actually accrued with respect to the Capital during any Settlement Period may exceed, or be less than, the amount set aside with respect thereto by Servicer, and (iv) the amount of fees or other payables accrued hereunder with respect to any Settlement Period may exceed, or be less than, the amount set aside with respect thereto by Servicer. Failure to set aside any amount so accrued shall not relieve Servicer of its obligation to remit Collections to the Administrator with respect to such accrued amount, as and to the extent provided in Section 3.01.

ARTICLE III

SETTLEMENTS

SECTION 3.01. Settlement Procedures.

The parties hereto will take the following actions with respect to each Settlement Period:

(a) Servicer Report. On or before the tenth (10th) Business Day of each month prior to the Final Payout Date (each, a "Reporting Date"), Servicer shall deliver to the Administrator a report containing the information described in Exhibit 3.01(a) (each, a "Servicer Report"). On or before the second Business Day to occur after the tenth (10th) Business Day of each month prior to the Final Payout Date, Servicer shall deliver to the Administrator a report containing the

information described in Exhibit 3.01(a)-M for the period from the first day of the related month to, and including, the tenth (10th) Business Day of such month (each, a "Mid-Month Report").

(b) Earned Discount; Other Amounts Due. Two Business Days prior to each Reporting Date, the Administrator shall notify Servicer of (i) the amount of Earned Discount that will have accrued in respect of the Capital as of the next Settlement Date and (ii) all Fees and other amounts that will have accrued and be payable by Seller under this Agreement on the next Settlement Date (other than Capital).

(c) Settlement Date Procedure - Reinvestment Period. On the second Business Day after each Reporting Date (each, a "Settlement Date") prior to the Termination Date, Servicer shall distribute from Collections set aside pursuant to Sections 1.03(a)(ii) and (iii) during the immediately preceding Settlement Period the following amounts in the following order:

(1) to the Administrator, an amount equal to the Earned Discount accrued during such Settlement Period, plus any previously accrued Earned Discount not paid on a prior Settlement Date, which amount shall be distributed by the Administrator to each Purchaser for application to the accrued Earned Discount with respect to such Purchaser's Capital;

(2) to the Administrator, an amount equal to the Program Fee and Commitment Fee accrued during such Settlement Period, plus any previously accrued Program Fee and Commitment Fee not paid on a prior Settlement Date;

(3) to Servicer, if Servicer is not Parent, an amount equal to the Purchasers' Share of Servicer's Fee accrued during such Settlement Period, plus any previously accrued Purchasers' Share of Servicer's Fee not paid on a prior Settlement Date (it being understood that so long as Servicer is Parent, no amount shall be distributed pursuant to this clause (3));

(4) to the Administrator, an amount equal to the Excess Amount, if any, which amount shall be distributed by the Administrator to each Purchaser, based upon such Purchaser's Funded Percentage, for application to such Purchaser's outstanding Capital;

(5) to the Administrator, all other amounts (other than Capital) then due under this Agreement to the Administrator, the Purchasers, the Affected Parties or the Indemnified Parties;

(6) to Servicer, if Servicer is Parent, an amount equal to the Purchasers' Share of Servicer's Fee accrued during such Settlement Period, plus any previously accrued Purchasers' Share of Servicer's Fee not paid on a prior Settlement Day (it being understood that so long as Servicer is not the Parent, no amount shall be distributed pursuant to clause (6)); and

(7) to Seller, any remaining amounts.

(d) Settlement Date Procedure - Liquidation Period. On each Settlement Date occurring after the Termination Date, Servicer shall distribute from Purchasers' Share of Collections received, or deemed received pursuant to Section 3.02, during the immediately preceding Settlement Period the following amounts in the following order:

(1) to the Administrator, an amount equal to the Earned Discount accrued during such Settlement Period, plus any previously accrued Earned Discount not paid on a prior Settlement Date, which amount shall be distributed by the Administrator to each Purchaser for application to the accrued Earned Discount with respect to such Purchaser's Capital;

(2) to the Administrator, an amount equal to the Program Fee and Commitment Fee accrued during such Settlement Period, plus any previously accrued Program Fee and Commitment Fee not paid on a prior Settlement Date;

(3) to Servicer, if Servicer is not Parent, an amount equal to the Purchasers' Share of Servicer's Fee accrued during such Settlement Period, plus any previously accrued Purchasers' Share of Servicer's Fee not paid on a prior Settlement Date (it being understood that so long as Servicer is Parent, no amount shall be distributed pursuant to this clause (3));

(4) to the Administrator, an amount equal to the remaining Purchasers' Share of Collections until the Capital is reduced to zero, which amount shall be distributed by the Administrator to each Purchaser, based upon such Purchaser's Funded Percentage, for application to such Purchaser's outstanding Capital;

(5) to the Administrator, all other amounts (other than Capital) then due under this Agreement to the Administrator, the Purchasers, the Affected Parties or the Indemnified Parties;

(6) to Servicer, if Servicer is Parent, an amount equal to the Purchasers' Share of Servicer's Fee accrued during such Settlement Period, plus any previously accrued Purchasers' Share of Servicer's Fee not paid on a prior Settlement Date (it being understood that so long as Servicer is not the Parent, no amount shall be distributed pursuant to clause (6)); and

(7) to Seller, any remaining amounts.

(e) Delayed Payment. If on any day described in this Section 3.01, because Collections during the relevant Settlement Period were less than the aggregate amounts payable, Servicer does not make any payment described in clauses (1) through (6) of Section 3.01(c) or (d), as applicable, the next available Collections in respect of the Asset Interest shall be applied to such payment, and no Reinvestment shall be permitted hereunder until such amount payable has been paid in full.

SECTION 3.02. Deemed Collections; Reduction of Capital, Etc.

(a) Deemed Collections. If

(i) a Dilution occurs or the Unpaid Balance of any Pool Receivable is less than the amount included in calculating the Net Pool Balance for purposes of any Servicer Report for any other reason, or

(ii) any of the representations or warranties of Seller set forth in Section 6.01(k) or (o) with respect to any Pool Receivable were not true when made with respect to any Pool Receivable, or any of the representations or warranties of Seller set forth in Section 6.01(k) are no longer true with respect to any Pool Receivable, or

(iii) without duplication, Seller receives a Deemed Collection pursuant to the Purchase Agreement,

then, on the next succeeding Settlement Date (or, if earlier, on the date the Originator pays a Deemed Collection pursuant to the Purchase Agreement), Seller shall be deemed to have received a Collection of such Pool Receivable

(I) in the case of clause (i) above, in the amount of such Dilution or the difference between the actual Unpaid Balance and the amount included in calculating such Net Pool Balance, as applicable; and

(II) in the case of clause (ii) above, in the amount of the Unpaid Balance of such Pool Receivable; and

(III) in the case of clause (iii) above, in the amount of such Deemed Collection.

(b) Seller's Optional Reduction of Capital. Seller may at any time elect to reduce the Capital as follows:

(i) Seller shall give the Administrator at least five (5) Business Days' prior written notice of such reduction (including the amount of such proposed reduction and the proposed date on which such reduction will commence),

(ii) on the proposed date of commencement of such reduction and on each day thereafter, Servicer shall refrain from reinvesting Collections pursuant to Section 1.03 until the amount thereof not so reinvested shall equal the desired amount of reduction, and

(iii) Servicer shall hold such Collections in trust for Purchasers, pending payment to the Administrator on the next Settlement Date, as provided in Section 1.03;

provided that,

(A) the amount of any such reduction shall be not less than $1,000,000, and the Capital after giving effect to such reduction shall be not less than $25,000,000 (unless Capital shall thereby be reduced to zero), and

(B) Seller shall use reasonable efforts to attempt to choose a reduction amount, and the date of commencement thereof, so that such reduction shall commence and conclude in the same Settlement Period.

SECTION 3.03. Payments and Computations, Etc.

(a) Payments. All amounts to be paid or deposited by Seller or Servicer to the Administrator hereunder shall be paid or deposited in accordance with the terms hereof no later than 10:00 a.m. (Boston, Massachusetts time) on the day when due in lawful money of the United States of America in immediately available funds to Bankers Trust Company at ABA# 0210-0103-3, account # 014196; reference: Eaglefunding-Avista, attention: CP Group.

(b) Late Payments. Seller or Servicer, as applicable, shall, to the extent permitted by law, pay to the Administrator, interest on all amounts not paid or deposited when such amount is due hereunder at 2% per annum above the Alternate Base Rate, payable on demand, provided, however, that such interest rate shall not at any time exceed the maximum rate permitted by Applicable Law.

(c) Method of Computation. All computations of interest, Earned Discount and any fees payable hereunder shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) elapsed.

ARTICLE IV

FEES AND YIELD PROTECTION

SECTION 4.01. Fees. Seller shall pay to the Administrator and Purchasers the fees in the amounts and at the times set forth in the fee letter, dated as of the date hereof, among the Administrator, Parent and Seller (as amended or supplemented from time to time, the "Fee Letter").

SECTION 4.02. Yield Protection.

(a) If (i) Regulation D or (ii) any Regulatory Change occurring after the date hereof

(A) shall subject an Affected Party to any tax, duty or other charge with respect to any Asset Interest owned by or funded by it, or any obligations or right to make Purchases or Reinvestments or to provide funding therefor, or shall change the basis of taxation of payments to the Affected Party of any Capital or Earned Discount owned by, owed to or funded in whole or in part by it or any other amounts due under this

Agreement in respect of the Asset Interest owned by or funded by it or its obligations or rights, if any, to make Purchases or Reinvestments or to provide funding therefor (except for franchise taxes or changes in the rate of tax on the net income of such Affected Party imposed by any jurisdiction); or

(B) shall impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Federal Reserve Board), special deposit, compulsory loan or similar requirement against assets of any Affected Party, deposits or obligations with or for the account of any Affected Party or with or for the account of any affiliate (or entity deemed by the Federal Reserve Board to be an affiliate) of any Affected Party, or credit extended by any Affected Party, but excluding any reserve, special deposit or similar requirement included in the determination of Earned Discount; or

(C) shall change the amount of capital maintained or required or requested or directed to be maintained by any Affected Party; or

(D) shall impose any other condition affecting any Asset Interest owned or funded in whole or in part by any Affected Party, or its obligations or rights, if any, to make Purchases or Reinvestments or to provide funding therefor; or

(E) shall change the rate for, or the manner in which the Federal Deposit Insurance Corporation (or a successor thereto) assesses, deposit insurance premiums or similar charges;

and the result of any of the foregoing is

(x) to increase the cost to or to impose a cost on an Affected Party funding or making or maintaining any Purchases or Reinvestments, any purchases, reinvestments, or loans or other extensions of credit under any Program Agreement, or any commitment of such Affected Party with respect to any of the foregoing,

(y) to reduce the amount of any sum received or receivable by an Affected Party under this Agreement, or under any Program Agreement with respect thereto, or

(z) to reduce the rate of return on the capital of an Affected Party as a consequence of its obligations hereunder or under any Program Agreement or arising in connection herewith to a level below that which such Affected Party could otherwise have achieved,

then within thirty days after demand by such Affected Party (which demand shall be accompanied by a statement setting forth the basis for, calculation of, and amount of such additional costs or reduced amount receivable; provided, however, that no Affected Party shall be required to disclose any confidential or tax planning information in any such statement), Seller shall pay directly to such Affected Party such additional amount or amounts as will compensate such Affected Party for such additional or increased cost or such reduction, but without duplication of any other similar additional amounts due under any other Program Agreement.

(b) In determining any amount provided for or referred to in this Section 4.02, an Affected Party may use any reasonable averaging and attribution methods that it shall deem applicable. Any Affected Party when making a claim under this Section 4.02 shall submit to Seller a statement as to such increased cost or reduced return (including reasonable calculations and an explanation in connection therewith), which statement shall, in the absence of manifest error, be conclusive and binding upon Seller.

SECTION 4.03. Funding Losses. In the event that any Affected Party shall incur any loss or expense (including any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Affected Party to make or maintain any funding with respect to the Asset Interest) as a result of (i) any settlement with respect to any portion of Capital funded by such Affected Party being made on any day other than the scheduled last day of an applicable Settlement Period with respect thereto, or (ii) any Purchase not being made in accordance with a request therefor under Section 1.02, or, then, upon demand by the Administrator to Seller, Seller shall pay to the Administrator for the account of such Affected Party, the amount of such loss or expense. Such written notice (which shall include calculations in reasonable detail) shall, in the absence of manifest error, be conclusive and binding upon Seller.

ARTICLE V

CONDITIONS TO PURCHASES

SECTION 5.01. Conditions Precedent to Initial Purchase. The initial Purchase hereunder is subject to the condition precedent that the Administrator shall have received, on or before the date of such Purchase, the following, each (unless otherwise indicated) dated such date and in form and substance reasonably satisfactory to the Administrator:

(a) Good standing certificates for each of Parent and Seller issued by the Secretaries of State of the jurisdiction of its incorporation and its principal place of business;

(b) A certificate of the Secretary or Assistant Secretary of each of Seller and Parent certifying (i) a copy of the resolutions of its Board of Directors approving the Transaction Documents to be delivered by it hereunder and the transactions contemplated hereby; (ii) the names and true signatures of the officers authorized on its behalf to sign the Transaction Documents to be delivered by it hereunder (on which certificate the Administrator and each Purchaser may conclusively rely until such time as the Administrator shall receive from Seller or Parent, as the case may be, a revised certificate meeting the requirements of this subsection (b)); (iii) a copy of its by-laws; and (iv) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to the Transaction Documents to which such Person is a party;

(c) The Certificate of Incorporation or Articles of Incorporation, as applicable, of each of Seller and Parent, duly certified by the Secretary of State of the jurisdiction of its incorporation, as of a recent date;

(d) Acknowledgment copies, or time stamped receipt copies, of proper financing statements (Form UCC-1), filed on or prior to the date of the initial Purchase, naming (i) the Originator as the debtor and seller of Receivables, Seller as the secured party and purchaser and Administrator, for the benefit of Purchasers, as the assignee and (ii) Seller as the debtor and seller of Receivables or an undivided interest therein and Administrator, for the benefit of Purchasers, as the secured party and purchaser, or other, similar instruments or documents, as may be necessary or, in the opinion of the Administrator, desirable under the UCC or any comparable law of all appropriate jurisdictions to perfect Seller's and Purchasers' interests in the Pool Assets;

(e) A search report provided in writing to and approved by the Administrator listing all effective financing statements that name the Originator or Seller as debtor or assignor and that are filed in the jurisdictions in which filings were made pursuant to subsection (d) above and in such other jurisdictions that Administrator shall reasonably request, together with copies of such financing statements (none of which shall cover any Pool Assets, unless executed termination statements and/or partial releases with respect thereto have been delivered to the Administrator), and tax and judgment lien search reports from a Person satisfactory to Servicer and the Administrator showing no evidence of such liens filed against the Originator or Seller;

(f) Duly executed copies of a Lock-Box Agreement with U.S. Bank, National Association, duly executed copies of an undated notice with respect to the Lock-Box Account at Bank of America, National Association and duly executed notices in substantially the form of Exhibit 5.01(f)-2 (a "Postmaster Notice") to the appropriate postmasters with respect to all Lock-Boxes;

(g) Opinions of Heller, Ehrman, White & McAuliffe, counsel to Parent and Seller covering such matters as the Administrator may request;

(h) Such powers of attorney as the Administrator shall reasonably request to enable the Administrator to collect all amounts due under any and all Pool Assets;

(i) A pro forma Servicer Report, prepared in respect of the proposed initial Purchase, assuming a Cut-Off Date of April 30, 2002;

(j) Satisfactory results of a review and audit, conducted by Fleet Securities, of Parent's collection, operating and reporting systems, Credit and Collection Policy, historical receivables data and accounts, including satisfactory results of a review of the Parent's operating location(s) and satisfactory review and approval of the Eligible Receivables in existence on the date of the initial Purchase;

(k) Evidence of payment of Seller by all accrued and unpaid fees (including those contemplated by the Fee Letter), costs and expenses to the extent then due and payable on the date thereof, together with attorneys' fees of the Administrator to the extent invoiced prior to such date, including any such costs, fees and expenses arising under or referenced in Section 14.05;

(l) The Liquidity Agreement, duly executed by Purchaser, the Liquidity Agent and each Liquidity Bank;

(m) The Purchase Agreement, duly executed by the Originator and Seller, and a copy of all documents required to be delivered thereunder;

(n) Duly executed copies of the Fee Letter;

(o) A reassignment and termination agreement in form and substance satisfactory to the Administrator, with respect to the existing receivables purchase facility; and

(p) Copies of the notices to the state Public Utility Commissions to which Parent is subject of the transactions contemplated hereby.

SECTION 5.02. Conditions Precedent to All Purchases and Reinvestments. Each Purchase (including the initial Purchase) and each Reinvestment hereunder, shall be subject to the further conditions precedent that:

(a) in the case of each Purchase, Servicer shall have delivered to the Administrator on or prior to such Purchase, in form and substance reasonably satisfactory to the Administrator, a completed Servicer Report with respect to the immediately preceding calendar month, dated within two (2) Business Days prior to the date of such Purchase, together with such additional information as may be reasonably requested by the Administrator; and

(b) on the date of such Purchase or Reinvestment the following statements shall be true (and Seller by accepting the amount of such Purchase or by receiving the proceeds of such Reinvestment shall be deemed to have certified that):

(i) the representations and warranties contained in Article VI are correct on and as of such day in all material respects as though made on and as of such day and shall be deemed to have been made on such day (except that any such representation or warranty that is expressly stated as being made only as of a specified earlier date shall be true and correct in all material respects as of such earlier date),

(ii) no event has occurred and is continuing, or would result from such Purchase or Reinvestment, that constitutes a Liquidation Event or Unmatured Liquidation Event,

(iii) after giving effect to each proposed Purchase or Reinvestment, Capital will not exceed the Purchase Limit and the Asset Interest will not exceed the Allocation Limit, and

(iv) the Termination Date shall not have occurred;

provided, however, the absence of the occurrence and continuance of an Unmatured Liquidation Event shall not be a condition precedent to any Reinvestment.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

SECTION 6.01. Representations and Warranties of Seller. Seller represents and warrants as follows:

(a) Organization and Good Standing. Seller has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Washington, with power and authority to own its properties as such properties are presently owned and to conduct its business as such business is presently conducted, and had at all relevant times, and now has, all necessary power, authority, and legal right to acquire and own the Pool Assets.

(b) Due Qualification. Seller is duly qualified to do business as a foreign corporation in good standing, and has obtained all necessary licenses and approvals, in all other jurisdictions in which the ownership or lease of property or the conduct of its business requires such qualification, licenses or approvals, except where the failure to so qualify or have such licenses or approvals has not had, and could not reasonably be expected to have, a Material Adverse Effect.

(c) Power and Authority; Due Authorization. Seller (i) has all necessary corporate power, authority and legal right to (A) execute and deliver this Agreement and the other Transaction Documents to which it is a party, (B) carry out the terms of the Transaction Documents to which it is a party, and (C) sell and assign the Asset Interest on the terms and conditions herein provided and (ii) has duly authorized by all necessary corporate action the execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party and the sale and assignment of the Asset Interest on the terms and conditions herein provided.

(d) Valid Transfer; Binding Obligations. This Agreement constitutes a valid transfer and assignment of the Asset Interest to the Administrator, for the benefit of Purchasers; and this Agreement constitutes, and each other Transaction Document to be signed by Seller when duly executed and delivered will constitute, a legal, valid and binding obligation of Seller enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

(e) No Violation. The consummation of the transactions contemplated by this Agreement and the other Transaction Documents to which Seller is a party and the fulfillment of the terms hereof and thereof will not (i) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under, Seller's certificate of incorporation or by-laws, (ii) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under any Contractual Obligation of Seller that has had, or could reasonably be expected to have, a Material Adverse Effect, (iii) result in the creation or imposition of any Lien upon any of Seller's properties pursuant to the terms of any such Contractual Obligation, other than any

Lien created pursuant to this Agreement or any other Transaction Document, or (iv) violate any Applicable Law, the violation of which has had, or could reasonably be expected to have, a Material Adverse Effect.

(f) No Proceedings. There is no litigation, proceeding or investigation pending, or to the best of Seller's knowledge, threatened, before any Governmental Authority or arbitrator (i) asserting the invalidity of this Agreement or any other Transaction Document to which Seller is a party, (ii) seeking to prevent the sale and assignment of the Asset Interest or the consummation of any of the other transactions contemplated by this Agreement or any other Transaction Document, or (iii) seeking any determination or ruling that could reasonably be expected to have a Material Adverse Effect.

(g) Bulk Sales Act. No transaction contemplated hereby requires compliance with any bulk sales act or similar law.

(h) Government Approvals. No Governmental Action is required for the due execution, delivery and performance by Seller of this Agreement or any other Transaction Document to which Seller is a party, except for the filing of the UCC financing statements referred to in Article V, all of which, at the time required in Article V, shall have been duly made and shall be in full force and effect.

(i) Financial Condition. Since the date of Seller's formation, there has been no material adverse change in Seller's results of operations, financial condition or assets.

(j) Margin Regulations. The use of all funds obtained by Seller under this Agreement will not conflict with or contravene any of Regulations T, U and X promulgated by the Board of Governors of the Federal Reserve System from time to time.

(k) Quality of Title. Each Pool Asset is legally and beneficially owned by Seller free and clear of any Lien (other than any Lien created hereby or arising solely as the result of any action taken by a Purchaser or the Administrator); when the Administrator, for the benefit of Purchasers, makes a Purchase or Reinvestment, it shall acquire a valid and enforceable perfected first priority undivided percentage interest to the extent of the Asset Interest in each Pool Asset, free and clear of any Lien (other than any Lien created hereby or arising solely as the result of any action taken by a Purchaser or the Administrator), enforceable against any creditor of, or purchaser from, Seller or the Originator; and no financing statement or other instrument similar in effect covering any Pool Asset is on file in any recording office except such as may be filed (i) in favor of Seller in accordance with the Purchase Agreement, or (ii) in favor of a Purchaser or the Administrator in accordance with this Agreement or in connection with any Lien arising solely as the result of any action taken by a Purchaser or the Administrator.

(l) Accurate Reports. No information included in any Servicer Report or Mid-Month Report to the extent supplied by Seller, or other information, exhibit, financial statement, document, book, record or report furnished by or on behalf of Seller to the Administrator or any Purchaser in connection with this Agreement was inaccurate in any material respect as of the date it was dated or (except as otherwise disclosed in writing to the Administrator at such time) as of the date so furnished, or contained any untrue statement of a material fact or omitted to

state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(m) Offices. The principal place of business and chief executive office of Seller are located at the address of Seller referred to in Section 14.02, and the offices where Seller keeps all its books, records and documents evidencing or relating to Pool Receivables are located at the addresses specified in Schedule 6.01(m) (or at such other locations, notified to the Administrator in accordance with Section 7.01(f), in jurisdictions where all action required by Section 8.05 has been taken and completed).

(n) Lock-Box Accounts. The names and addresses of all the Lock-Box Banks, together with the account numbers of the lock-box accounts of Seller at such Lock-Box Banks, are specified in Schedule 6.01(n) (or have been notified to the Administrator in accordance with Section 7.03(d)).

(o) Eligible Receivables. Each Receivable included in the Net Pool Balance as an Eligible Receivable on the date of any Purchase, Reinvestment or other calculation of Net Pool Balance was an Eligible Receivable on such date.

(p) Accounting Sale. Seller has accounted for each sale of undivided percentage ownership interests in Receivables in its books and financial statements as sales, consistent with GAAP.

(q) Credit and Collection Policy. Seller has complied in all material respects with the Credit and Collection Policy with regard to each Receivable.

(r) Corporate Name. Seller's complete corporate name is set forth in the preamble to this Agreement, and Seller does not use and has not during the last six years used any other corporate name, trade name, doing business name or fictitious name, other than WWP Receivables Corp.

SECTION 6.02. Representations and Warranties of Parent. Parent represents and warrants as follows:

(a) Organization and Good Standing. Parent has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Washington, with power and authority to own its properties as such properties are presently owned and to conduct its business as such business is presently conducted.

(b) Due Qualification. Parent is duly qualified to do business as a foreign corporation in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business requires such qualification, licenses or approvals, except where the failure to so qualify or have such licenses or approvals has not had, and could not reasonably be expected to have, a Material Adverse Effect.

(c) Power and Authority; Due Authorization. Parent (i) has all necessary corporate power, authority and legal right to (A) execute and deliver this Agreement and the other

Transaction Documents to which it is a party and (B) carry out the terms of the Transaction Documents to which it is a party and (ii) has duly authorized by all necessary corporate action the execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party.

(d) Binding Obligations. This Agreement constitutes, and each other Transaction Document to be signed by Parent when duly executed and delivered will constitute, a legal, valid and binding obligation of Parent enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

(e) No Violation. The consummation of the transactions contemplated by this Agreement and the other Transaction Documents to which Parent is a party and the fulfillment of the terms hereof and thereof will not (i) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under the Parent's articles of incorporation or by-laws, (ii) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under any Contractual Obligation of Parent that has had, or could reasonably be expected to have, a Material Adverse Effect, (iii) result in the creation or imposition of any Lien upon any of Parent's properties pursuant to the terms of any such Contractual Obligation (other than any Lien created pursuant to the Transaction Documents), or (iv) violate any Applicable Law, the violation of which has had, or could reasonably be expected to have, a Material Adverse Effect.

(f) No Proceedings. Except as set forth in the Annual Report of Parent on Form 10-K for the year ended December 31, 2001, or in any document filed prior to the date of this Agreement pursuant to Section 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there is no litigation, proceeding or investigation pending or, to the best of Parent's knowledge, threatened, before any Governmental Authority or arbitrator (i) asserting the invalidity of this Agreement or any other Transaction Document to which Parent is a party, (ii) seeking to prevent the sale and assignment of the Asset Interest or the consummation of any of the other transactions contemplated by this Agreement or any other Transaction Document, or (iii) seeking any determination or ruling that could reasonably be expected to have a Material Adverse Effect.

(g) Government Approvals. No Governmental Action is required for the due execution, delivery and performance by Parent of this Agreement or any other Transaction Document to which it is a party, other than the filing of the UCC financing statements and the notice to the relevant state Public Utility Commissions referred to in Article V, all of which, at the time required in Article V, shall have been duly made and shall be in full force and effect.

(h) Financial Condition. The audited consolidated balance sheets of Parent as at December 31, 1999, December 31, 2000 and December 31, 2001, and the related consolidated statements of income and cash flows for the fiscal years ended on such dates reported on by and accompanied by an unqualified report from Deloitte & Touche, present fairly the consolidated financial position of Parent as at such dates and the consolidated results of its operations and its consolidated cash flows for the respective fiscal years then ended. The unaudited consolidated balance sheet of Parent as at March 31, 2001, and the related unaudited consolidated statements

of income and cash flows for the three-month period ended on such date, present fairly the consolidated financial position of Parent as at such date, and the consolidated results of its operations and its consolidated cash flows for the three-month period then ended (subject to normal year-end audit adjustments). All such financial statements, including the related schedules and any notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by the aforementioned firm of accountants and disclosed therein). Since December 31, 2001 there has been no material adverse change in any such business, results of operations, assets or financial position.

(i) Accurate Reports. No information included in any Servicer Report or Mid-Month Report to the extent supplied by Parent, or other information, exhibit, financial statement, document, book, record or report furnished by or on behalf of Parent to the Administrator or any Purchaser, in connection with this Agreement was inaccurate in any material respect as of the date it was dated or (except as otherwise disclosed in writing to the Administrator at such time) as of the date so furnished, or contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(j) Lock-Box Accounts. Less than 3% of the monthly Collections are sent to, or deposited in, the Lock-Box Accounts located at Wells Fargo Bank and Washington Mutual Bank.

ARTICLE VII

GENERAL COVENANTS

SECTION 7.01. Affirmative Covenants. From the date hereof until the Final Payout Date:

(a) Compliance with Laws, Etc. Each of Seller and Parent will comply in all material respects with all Applicable Laws, including those with respect to the Pool Receivables and the related Contracts, except where noncompliance could not reasonably be expected to have a Material Adverse Effect.

(b) Preservation of Corporate Existence. Each of Seller and Parent will preserve and maintain its corporate existence in the jurisdiction of its formation, and qualify and remain qualified in good standing as a foreign corporation in each jurisdiction where the failure to preserve and maintain such existence and qualification could reasonably be expected to have a Material Adverse Effect.

(c) Audits. (i) Each of Parent and Seller will from time to time during regular business hours and, unless a Liquidation Event has occurred and is continuing, on reasonable prior written notice, permit the Administrator or any of its agents or representatives, (A) to examine and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in its possession or under its control relating to Pool Assets, (B) to visit its offices and properties for the purpose of examining such materials

described in clause (i)(A) above, and to discuss matters relating to Pool Assets or its performance hereunder with any of its officers or employees having knowledge of such matters, and (C) to verify the existence and amount of the Receivables; and (ii) without limiting the provisions of clause (i) above, from time to time on the written request of Administrator during regular business hours, permit certified public accountants or other auditors acceptable to the Administrator, at Seller's or Parent's, as the case may be, expense, a review of its books and records with respect to the Pool Receivables; provided, however that unless a Liquidation Event has occurred and is continuing, Seller and Parent shall not be obligated to pay for more than one such review in each calendar year.

(d) Keeping of Records and Books of Account. Each of Seller and Parent will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Pool Receivables in the event of the destruction of the originals thereof) and keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all Pool Assets (including, without limitation, records adequate to permit the daily identification of each new Pool Receivable and all Collections of and adjustments to each existing Pool Receivable).

(e) Performance and Compliance with Receivables and Contracts. Seller will timely and fully perform and comply (or cause the Originator to perform and comply pursuant to the Purchase Agreement) with all provisions, covenants and other promises required to be observed by it under the Contracts related to the Pool Receivables and all other agreements related to such Pool Receivables, except where failure to do so would not materially adversely affect the validity, enforceability or collectibility of the related Pool Receivable.

(f) Location of Records. Each of Seller and Parent will keep its principal place of business and chief executive office, and the offices where it keeps its records concerning the Pool Receivables and all related Contracts and all other agreements related to such Pool Receivables (and all original documents relating thereto), at its address(es) referred to in Section 14.02 or, upon 30 days' prior written notice to the Administrator, at such other locations in jurisdictions where all action required by Section 8.05 shall have been taken and completed.

(g) Credit and Collection Policies. Each of Seller and Parent, at its own expense, will timely and fully perform and comply in all material respects with the Credit and Collection Policy in regard to each Pool Receivable and the related Contracts.

(h) Collections. Each of Seller and Parent will (i) instruct all Obligors to cause all Collections to be sent to a Lock-Box that is the subject of a Postmaster Notice and (ii) deposit, and instruct each Lock-Box Bank to deposit, all such Collections directly into a Lock-Box Account that is the subject of a Lock-Box Agreement, provided that the Lock-Box Accounts at Wells Fargo Bank, Bank of America and Washington Mutual Bank shall not be subject to a Lock-Box Agreement as of the date hereof. Seller and Servicer hereby agree to (i) deliver to the Administrator Lock-Box Agreement executed by Wells Fargo Bank and Washington Mutual Bank on or before June 21, 2002, (ii) from and after June 10, 2002, deposit all checks and other payments received in the Lock-Boxes into a Lock-Box Account that is subject to a Lock-Box Agreement and (iii) close the Lock-Box Account located at Bank of America on or before August 30, 2002. In the event that Parent or Seller receives Collections directly from any

Obligor, Parent or Seller, as the case may be, shall deposit such Collections into a Lock-Box Account within two Business Days of receipt thereof.

(i) Net Worth. Seller will maintain a Tangible Net Worth of at least $1,000,000.

(j) Quality of Title. Each of Seller and Parent will take all action reasonably necessary or advisable to establish and maintain a valid and enforceable perfected first priority undivided percentage interest in favor of the Administrator, for the benefit of the Purchasers, to the extent of the Asset Interest in each Pool Asset, free and clear of any Lien (other than any Lien created by this Agreement or any other Transaction Document or arising solely as a result of any action taken by a Purchaser or the Administrator), enforceable against any creditor of, or purchaser from, Seller or Parent.

(k) Financial Covenants. Parent will not permit (i) Consolidated Total Debt to Consolidated Total Capitalization to be, at any time, greater than 0.65 to 1.00, or (ii) the ratio of the Avista Utilities EBITDA to Avista Utilities Interest Expense to be less than 1.6 to 1 for (a) the two-quarter fiscal quarter period ending March 31, 2002, (b) the three-fiscal quarter period ending June 30, 2002, or (c) any four-fiscal quarter period ending thereafter.

SECTION 7.02. Reporting Requirements. From the date hereof until the Final Payout Date:

(a) Quarterly Financial Statements. As soon as available and in any event within 50 days after the end of each of the first three quarterly periods of each fiscal year (i) Seller will furnish to the Administrator copies of its unaudited financial statements, consisting of at least a balance sheet of Seller as at the close of such quarter and the related unaudited statements of income and of cash flows for such quarter and for the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by the chief financial officer or treasurer of Seller as being fairly stated in all material respects (subject to normal year-end audit adjustments) and (ii) Parent will furnish to the Administrator copies of the unaudited consolidated financial statements of Parent, consisting of at least an unaudited consolidated balance sheet of Parent and its Subsidiaries as at the end of such quarter and the related unaudited statements of income and cash flows for such quarter and for the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by the principal financial officer of Parent as being fairly stated in all material respects (subject to normal year-end audit adjustments); all of the foregoing financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such officer and disclosed therein, provided that such financial statements need not contain footnotes);

(b) Annual Financial Statements. As soon as available and in any event within 105 days after the end of each fiscal year (i) Seller will furnish to the Administrator copies of its unaudited financial statements, consisting of at least a balance sheet of Seller as at the end of such year and the related unaudited consolidated statements of income and cash flows for such year, setting forth in each case in comparative form the figures for the previous year certified by

the chief financial officer or treasurer of Seller as being fairly stated in all material respects; and (ii) Parent will furnish to the Administrator copies of its audited financial statements, consisting of at least the audited consolidated balance sheet of Parent and its Subsidiaries as at the end of such year and a related audited consolidated statements of income and of cash flow for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going-concern" or like qualification or exception, or qualification arising out of the scope of the audit, by Deloitte & Touche or other independent certified public accountants of national recognized standing; all of the foregoing financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants and disclosed therein);

(c) Compliance Certificate. Together with each quarterly and annual financial statement delivered in accordance with the preceding paragraphs, Parent will furnish to the Administrator a compliance certificate showing a calculation of the financial covenants set forth in Section 7.01(k) certified by the chief financial officer or treasurer of Parent;

(d) Liquidation Events. Each of Seller and Parent will furnish to the Administrator, as soon as possible and in any event within three Business Days after an officer of Seller or Parent obtains actual knowledge of the occurrence of each Liquidation Event and each Unmatured Liquidation Event, a written statement of the chief financial officer or chief accounting officer of Seller or Parent, as the case may be, setting forth details of such event and the action that Seller or Parent, as the case may be, proposes to take with respect thereto;

(e) Litigation. Each of Seller and Parent will furnish to the Administrator, as soon as possible and in any event within five Business Days of Seller's or Parent's actual knowledge thereof, notice of (i) any litigation, investigation or proceeding which may exist at any time which is not fully covered by insurance and which could be reasonably expected to have a Material Adverse Effect and (ii) any material adverse development in previously disclosed litigation;

(f) Change in Credit and Collection Policy. Each of Seller and Parent will furnish to the Administrator, prior to its effective date, notice of any material change in the Credit and Collection Policy;

(g) Change in Name. Seller will furnish to the Administrator, at least thirty days prior to any change in Seller's name, jurisdiction of organization or any other change requiring the amendment of UCC financing statements, a notice setting forth such changes and the effective date thereof; and

(h) Other Information. Each of Seller and Parent will furnish to the Administrator such other information respecting the Receivables or the condition or operations, financial or otherwise, of the Parent or Seller or any of Parent's Subsidiaries as the Administrator may from time to time reasonably request.

SECTION 7.03. Negative Covenants. From the date hereof until the Final Payout Date:

(a) Sales, Liens, Etc. Seller will not, except as otherwise provided herein or in the other Transaction Documents, sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Lien upon or with respect to, any Pool Asset or any interest therein.

(b) Extension or Amendment of Receivables. Neither Parent nor Seller will, except as otherwise permitted in Section 8.02, extend, amend or otherwise modify, or permit Servicer to extend, amend or otherwise modify, the terms of any Pool Receivable; or amend, modify or waive, or permit Servicer to amend, modify or waive, any term or condition of any Contract related to a Pool Receivable.

(c) Change in Business or Credit and Collection Policy. Neither Servicer nor Seller will make any change in the character of its business or in the Credit and Collection Policy (with the understanding that Servicer may adjust, modify or otherwise affect Receivables as permitted in Section 8.02(c)), which change, in either case, could materially impair the collectibility of a significant portion of the Pool Receivables or otherwise materially adversely affect the interests or remedies of the Administrator or any Purchaser under this Agreement or any other Transaction Document.

(d) Change in Payment Instructions to Obligors. Neither Parent nor Seller will add or terminate any Lock-Box, or any bank as a Lock-Box Bank or any Lock-Box Account from those listed in Schedule 6.01(n) or make any change, or permit Servicer to make any change, in its instructions to Obligors regarding payments to be made to Seller or Servicer or payments to be made to any Lock-Box or Lock-Box Bank, unless the Administrator shall have received prior notice of such addition, termination or change and duly executed copies of Postmaster Notices to the applicable postmaster, or Lock-Box Agreements with each new Lock-Box Bank or with respect to each new Lock-Box Account, as the case may be.

(e) Mergers, Acquisitions, Sales, etc.

(i) Parent will not merge into or consolidate with any other Person or permit any other Person (without the prior written consent of the Administrator, not to be unreasonably withheld) to merge with or into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such Person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other Person) other than acquisitions in the ordinary course of Parent's business, except that, if at the time of such merger, consolidation, or acquisition, and immediately after giving effect to such merger, consolidation, or acquisition, no Liquidation Event or Unmatured Liquidation Event shall have occurred and be continuing, then (A) Parent may merge with or into or consolidate with any Subsidiary (other than Seller) in a transaction in which Parent is the surviving corporation, (B) Parent may purchase, lease or otherwise acquire from any Subsidiary (other than Seller) all or substantially all of its assets and may purchase or otherwise

acquire all or substantially all of the capital stock of any Person who immediately thereafter is a Subsidiary, (C) Parent may merge with or into, or consolidate with, any other Person or an Affiliate of such other Person so long as (i) in the case where the business of such other Person or an Affiliate of such other Person, entirely or primarily consists of an electric or gas utility business, (a) if Parent is the surviving entity, the senior secured long-term debt rating of Parent shall be at least BBB- or higher by S&P and Baa3 or higher by Moody's immediately after such merger or consolidation, or (b) in the case of a merger or consolidation in which Parent is not the surviving entity, (1) the surviving entity shall assume in writing the obligation of Parent under this Agreement and each other Transaction Document and (2) the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other Person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such Person at the time of such consolidation or merger do not exceed 10% of the total assets of Parent and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, or (D) Parent may purchase, lease or otherwise acquire any or all of the assets of any other Person (and may purchase or otherwise acquire the capital stock of any other Person) so long as (i) the assets being purchased, leased or acquired (or the assets of the Person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the Person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or Parent's proportionate share of the assets of the Person whose capital stock is being acquired) do not exceed 10% of the total assets of Parent and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

(ii) Seller will not merge or consolidate with any other Person, or permit any other Person to merge or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person (whether directly or by purchase, lease or other acquisition of all or substantially all of the assets of such Person or indirectly by Purchase or other acquisition of all or substantially all of the capital stock of such other Person) other than the acquisition of the Receivables and Related Assets pursuant to the Purchase Agreement and the sale of an interest in the Pool Receivables and Related Assets hereunder.

(f) Deposits to Special Accounts. Neither Parent nor Seller will deposit or otherwise credit, or cause or permit to be so deposited or credited, to any Lock-Box Account cash or cash proceeds other than Collections of Pool Receivables.

(g) Other Business. Seller will not (i) engage in any business other than the transactions contemplated by the Transaction Documents; (ii) incur any indebtedness, obligation, liability or contingent obligation of any kind other than pursuant to this Agreement or the Purchase Agreement; or (iii) form any Subsidiary or make any investments in any other Person.

(h) Certificate of Incorporation; Purchase Agreement. Seller will not amend, modify, terminate, revoke or waive any provision of its certificate of incorporation, the Initial Purchaser Note or the Purchase Agreement.

(i) Restricted Payments. Seller will not declare or make any dividend or other distributions to any of its shareholders, redeem or purchase any of its capital stock or make any loan or other payments to any of its shareholders (other than (1) payments of the purchase price of Receivables as set forth in the Purchase Agreement, (2) the turn-over of Collections of Reconveyed Receivables to the Originator as set forth in the Purchase Agreement, (3) payment of Servicer's Fee so long as Parent is Servicer and (4) payment of reasonable management fees and reimbursement of reasonable expenses of Parent incurred in connection with managing Seller) unless, in each case, no Liquidation Event or Unmatured Liquidation Event has occurred and is continuing or would result therefrom.

(j) Change of Name or Location. Seller will not change its name or the location of its principal place of business or chief executive office or its corporate structure or its jurisdiction or organization, unless Seller has given the Administrator at least thirty (30) days prior notice thereof, and has taken all steps necessary or advisable under the UCC to continue the perfection and priority of the Administrator's and each Purchaser's interest in the Pool Assets.

SECTION 7.04. Separate Existence. Each of Seller and Parent hereby acknowledges that each Purchaser, the Program Support Providers and the Administrator are entering into the transactions contemplated by this Agreement and the other Transaction Documents in reliance upon Seller's identity as a legal entity separate from Parent. Therefore, from and after the date hereof, each of Seller and Parent shall take all steps specifically required by this Agreement or by any Purchaser or the Administrator to continue Seller's identity as a separate legal entity and to make it apparent to third Persons that Seller is an entity with assets and liabilities distinct from those of Parent and any other Person, and is not a division of Parent or any other Person. Without limiting the generality of the foregoing and in addition to and consistent with the other covenants set forth herein, each of Seller and Parent shall take such actions as shall be required in order that:

(a) Seller will be a limited purpose corporation whose primary activities are restricted in its certificate of incorporation to purchasing or otherwise acquiring from the Originator, owning, holding, granting security interests, or selling interests, in Pool Assets, entering into agreements for the selling and servicing of the Receivables Pool, and conducting such other activities as it deems necessary or appropriate to carry out its primary activities;

(b) Seller shall not engage in any business or activity, or incur any indebtedness or liability other than as expressly permitted by the Transaction Documents;

(c) Not less than one member of Seller's Board of Directors shall be an Independent Director. The certificate of incorporation of Seller shall provide that (i) Seller's Board of Directors shall not approve, or take any other action to cause the filing of, a voluntary bankruptcy or insolvency petition or similar proceeding or a merger or dissolution with respect to Seller unless the Independent Director shall approve the taking of such action in writing prior to

the taking of such action and (ii) such provision cannot be amended without the prior written consent of the Independent Director;

(d) The Independent Director shall not at any time serve as a trustee in bankruptcy for Seller, Parent or any Affiliate thereof;

(e) Any employee, consultant or agent of Seller will be compensated from Seller's funds for services provided to Seller. Seller will not engage any agents other than its attorneys, auditors and other professionals, and a Servicer as contemplated by the Transaction Documents for the Receivables Pool, which Servicer will be fully compensated for its services by payment of Servicer's Fee and a manager, which manager will be fully compensated from Seller's funds;

(f) Seller will not incur any material indirect or overhead expenses for items shared with Parent (or any other Affiliate thereof) which are not reflected in Servicer's Fee or the fee to Parent in its role as manager for Seller. To the extent, if any, that Seller (or any other Affiliate thereof) share items of expenses not reflected in Servicer's Fee or the manager's fee, such as legal, auditing and other professional services, such expenses will be allocated to the extent practical on the basis of actual use or the value of services rendered, and otherwise on a basis reasonably related to the actual use or the value of services rendered, it being understood that Parent shall pay all expenses relating to the preparation, negotiation, execution and delivery of the Transaction Documents, including, without limitation, legal and other fees;

(g) Seller's operating expenses will not be paid by Parent or any other Affiliate thereof;

(h) Seller will have its own stationery;

(i) Seller's books and records will be maintained separately from those of Parent and any other Affiliate thereof;

(j) All financial statements of Parent or any Affiliate thereof that are consolidated to include Seller will contain detailed notes clearly stating that (A) all of Seller's assets are owned by Seller, and (B) Seller is a separate entity with creditors who have received security interests in Seller's assets;

(k) Seller's assets will be maintained in a manner that facilitates their identification and segregation from those of Parent or any Affiliate thereof;

(l) Seller will strictly observe corporate formalities in its dealings with Parent or any Affiliate thereof, and funds or other assets of Seller will not be commingled with those of Parent or any Affiliate thereof except as permitted by this Agreement in connection with servicing the Pool Receivables. Seller shall not maintain joint bank accounts or other depository accounts to which Parent or any Affiliate thereof (other than Parent in its capacity as Servicer) has independent access;

(m) Seller will maintain arms'-length relationships with Parent (and any Affiliate thereof). Any Person that renders or otherwise furnishes services to Seller will be compensated by Seller at market rates for such services it renders or otherwise furnishes to Seller. Neither

Seller nor Parent will be or will hold itself out to be responsible for the debts of the other or the decisions or actions respecting the daily business and affairs of the other. Seller and Parent will immediately correct any known misrepresentation with respect to the foregoing, and they will not operate or purport to operate as an integrated single economic unit with respect to each other or in their dealing with any other entity; and

(n) Seller and Parent will take such other actions as may be necessary to ensure that the facts and assumptions set forth in the opinion issued by Heller, Ehrman, White & McAuliffe in connection with the initial Purchase and in the certificate accompanying such opinion remain true and correct.

ARTICLE VIII

ADMINISTRATION AND COLLECTION

SECTION 8.01. Designation of Servicer.

(a) Parent as Initial Servicer. The servicing, administering and collection of the Pool Receivables shall be conducted by the Person designated as servicer hereunder ("Servicer") from time to time in accordance with this Section 8.01. Until the Administrator gives to Parent a Successor Notice, Parent is hereby designated as, and hereby agrees to perform the duties and obligations of, Servicer pursuant to the terms hereof.

(b) Successor Notice; Servicer Transfer Events. Upon Parent's receipt of notice from the Administrator of the Administrator's designation of a new Servicer (a "Successor Notice"), Parent agrees that it will terminate its activities as Servicer hereunder in a manner that the Administrator reasonably believes will facilitate the transition of the performance of such activities to the new Servicer, and the new Servicer shall assume each and all of Parent's obligations to service and administer such Pool Receivables, on the terms and subject to the conditions herein set forth, and Parent shall use its commercially reasonable efforts to assist the new Servicer in assuming such obligations. The Administrator agrees not to give Parent a Successor Notice until after the occurrence of a Liquidation Event (any such Liquidation Event being herein called a "Servicer Transfer Event"), in which case such Successor Notice may be given at any time in the Administrator's discretion.

(c) Resignation. The Parent acknowledges that the Administrator and each Purchaser have relied on the Parent's agreement to act as Servicer hereunder in making their decision to execute and deliver this Agreement. Accordingly, the Parent agrees that it will not voluntarily resign as Servicer.

(d) Subcontracts. Servicer may, with the prior consent of the Administrator, subcontract with any other Person for servicing, administering or collecting the Pool Receivables, provided that (i) such sub-servicer shall agree in writing to perform its duties and obligations in a manner not inconsistent with the duties and obligations of Servicer pursuant to the terms hereof; (ii) Servicer shall remain primarily liable for the performance of the duties and obligations of Servicer pursuant to the terms hereof, (iii) Seller, the Administrator and each

Purchaser shall have the right to look solely to Servicer for performance, and (iv) any such subcontract may be terminated at the option of the Administrator upon the occurrence of a Servicer Transfer Event.

(e) Servicing Programs. In the event that Servicer uses any software program in servicing the Pool Receivables that it licenses from a third party, upon the occurrence of a Servicer Transfer Event, Servicer shall use its commercially reasonable efforts to obtain whatever licenses or approvals are necessary to allow the Administrator or the new Servicer to use such program.

SECTION 8.02. Duties of Servicer.

(a) Appointment; Duties in General. Each of Seller, each Purchaser and the Administrator hereby appoints Servicer as its agent, as from time to time designated pursuant to Section 8.01, to enforce its rights and interests in and under the Pool Assets. Servicer shall take or cause to be taken all such actions as may be necessary or advisable to collect each Pool Receivable from time to time, all in accordance with Applicable Law and the Credit and Collection Policy.

(b) Allocation of Collections; Segregation. Servicer shall set aside for the account of Seller and Purchasers their respective allocable shares of the Collections of Pool Receivables in accordance with Section 1.03 but shall not be required (unless otherwise instructed by the Administrator) to segregate the funds constituting such portions of such Collections prior to the remittance thereof in accordance with Section 3.01. If instructed by the Administrator, Servicer shall segregate and deposit with a bank designated by the Administrator, Purchasers' Share of Collections, on the second Business Day following receipt by Servicer of such Collections in immediately available funds.

(c) Modification of Receivables. So long as no Liquidation Event or Unmatured Liquidation Event shall have occurred and be continuing, Servicer (i) may in accordance with the Credit and Collection Policy, adjust the Unpaid Balance of any Defaulted Receivable or extend the time for payment of any Defaulted Receivable (but in no event to a date later than 45 days from the date of the original invoice), provided that (A) such extension or adjustment shall not alter the status of such Pool Receivable as an Overdue Receivable or a Defaulted Receivable or limit the rights of any Purchaser or the Administrator under this Agreement, and (B) the aggregate amount of all such adjustments made in any Settlement Period, plus the aggregate Unpaid Balance of all Pool Receivables that have been extended during such Settlement Period, shall not exceed 2% of the aggregate Unpaid Balance of all Pool Receivables as at the Cut-Off Date for such Settlement Period and (ii) shall adjust the Unpaid Balance of any Receivable to reflect the reductions or cancellations described in the first sentence of Section 3.02(a).

(d) Documents and Records. Seller shall deliver to Servicer, and Servicer shall hold in trust for Seller and Purchasers in accordance with their respective interests, all documents, instruments and records (including, without limitation, computer tapes or disks) that evidence Pool Receivables.

(e) Certain Duties to Seller. Servicer shall, as soon as practicable following receipt, turn over to Seller that portion of Collections of Pool Receivables representing Seller's undivided interest therein, less Seller's Share of Servicer's Fee. Seller hereby directs Servicer to pay any Collections of any Reconveyed Receivable directly to the Originator to be applied pursuant to the Purchase Agreement. Servicer shall, as soon as practicable upon demand, deliver to Seller copies of documents, instruments and records in its possession that evidence Pool Receivables.

(f) Termination. Servicer's authorization under this Agreement shall terminate upon the Final Payout Date.

(g) Power of Attorney. Seller hereby grants to Servicer an irrevocable power of attorney, with full power of substitution, coupled with an interest, to take in the name of Seller all steps which are necessary or advisable to endorse, negotiate or otherwise realize on any writing or other right of any kind held or transmitted by Seller or transmitted or received by a Purchaser (whether or not from Seller) in connection with any Receivable. Notwithstanding anything to the contrary contained herein, the Administrator may direct Servicer to commence or settle any legal action to enforce collection of any Pool Receivable or to foreclose upon or repossess any Related Security; provided, however, that no such direction may be given unless either (i) a Liquidation Event has occurred or (ii) the Administrator believes in good faith that failure to commence, settle, or effect such legal action, foreclosure or repossession, could adversely affect Receivables constituting a material portion of the Pool Receivables, provided that the Administrator has given Servicer at least two Business Days' notice of its intention to give such direction.

SECTION 8.03. Rights of the Administrator.

(a) Notice to Obligors. At any time after the occurrence of a Liquidation Event, the Administrator may notify the Obligors of Pool Receivables, or any of them, of the ownership of the Asset Interest by the Administrator, for the benefit of Purchasers.

(b) Notice to Lock-Box Banks. At any time following the earlier to occur of (i) the occurrence of a Liquidation Event, and (ii) the commencement of the Liquidation Period, the Administrator is hereby authorized to give notice to the related postmaster(s) and/or Lock-Box Banks, as provided in the Lock-Box Agreements, of the transfer to the Administrator of dominion and control over the lock-boxes and Lock-Box Accounts. Each of Servicer and Seller hereby transfers to the Administrator, effective when the Administrator shall give notice to the related postmaster(s) and/or Lock-Box Banks as provided in the Lock-Box Agreements, the exclusive dominion and control over such lock-boxes and accounts, and shall take any further action that the Administrator may reasonably request to effect such transfer. Any proceeds of Pool Receivables received by Seller or Parent, as Servicer or otherwise, thereafter shall be sent immediately to the Administrator.

(c) Rights on Servicer Transfer Event. At any time following the designation of a Servicer other than Parent pursuant to Section 8.01:

(i) The Administrator may direct the Obligors of Pool Receivables, or any of them, to pay all amounts payable under any Pool Receivable directly to the Administrator or its designee.

(ii) Parent shall, at the Administrator's request and at Parent's expense, give notice of such ownership to each said Obligor and direct that payments be made directly to the Administrator or its designee.

(iii) Parent and Seller shall, at the Administrator's request, (A) assemble all of the documents, instruments and other records (including, without limitation, computer programs, tapes and disks) which evidence the Pool Receivables and the related Contracts and Related Security, or which are otherwise necessary or desirable to collect such Pool Receivables and make the same available to the Administrator at a place selected by the Administrator, and (B) segregate all cash, checks and other instruments received by it from time to time constituting Collections in a manner acceptable to the Administrator and promptly upon receipt, remit all such cash, checks and instruments, duly endorsed or with duly executed instruments of transfer, to the Administrator.

(iv) Each of Seller and each Purchaser hereby authorizes the Administrator, and grants to the Administrator an irrevocable power of attorney, to take any and all steps in Seller's name and on behalf of Seller and any Purchaser which are necessary or desirable, in the reasonable determination of the Administrator, to collect all amounts due under any and all Pool Receivables including, without limitation, endorsing Seller's name on checks and other instruments representing Collections and enforcing such Pool Receivables and the related Contracts.

SECTION 8.04. Responsibilities of Seller. Anything herein to the contrary notwithstanding:

(a) Contracts. Seller shall perform, or cause the Originator to perform under the Purchase Agreement, all of its material obligations under the Contracts related to the Pool Receivables and under the other agreements related thereto to the same extent as if the Asset Interest had not been sold hereunder, and the exercise by the Administrator or its designee of its rights hereunder shall not relieve Seller from any obligations under such Contracts and other agreements.

(b) Limitation of Liability. Neither the Administrator nor any Purchaser shall have any obligation or liability with respect to any Pool Receivables, the related Contracts or any other related agreements, nor shall any of them be obligated to perform any of the obligations of Seller or the Originator thereunder.

SECTION 8.05. Further Action Evidencing Purchases and Reinvestments.

(a) Further Assurances. Seller shall, at its expense, take all action necessary or advisable to establish and maintain a valid and enforceable first priority perfected undivided ownership interest, to the extent of the Asset Interest, in the Pool Assets, free and clear of any Lien, in favor of the Administrator, for the benefit of Purchasers. Without limiting the generality of the foregoing, Seller will upon the request of the Administrator or its designee execute and file

such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate to evidence or perfect the interest described in the previous sentence.

(b) Data Processing Records. Each of Parent and Seller will mark its master data processing records evidencing the Pool Receivables with the legend set forth below evidencing that the Asset Interest has been sold in accordance with this Agreement.

> AN OWNERSHIP AND SECURITY INTEREST IN THE RECEIVABLES DESCRIBED HEREIN HAS BEEN GRANTED AND ASSIGNED TO FLEET SECURITIES, INC., AS ADMINISTRATOR, PURSUANT TO A RECEIVABLES PURCHASE AGREEMENT, DATED AS OF MAY 29, 2002, AMONG AVISTA CORPORATION, AVISTA RECEIVABLES CORP., EAGLEFUNDING CAPITAL CORPORATION, FLEET NATIONAL BANK AND FLEET SECURITIES, INC., AS THE ADMINISTRATOR.

(c) Additional Financing Statements; Performance by Administrator. Seller hereby authorizes the Administrator or its designee to file one or more financing or continuation statements, and amendments thereto and assignments thereof, relative to all or any portion of the Asset Interest now existing or hereafter arising in the name of Seller without the signature of Seller to the extent permitted by Applicable Law. If Seller or Parent fails to perform any of its agreements or obligations under this Agreement, the Administrator or its designee may (but shall not be required to), after notice to Seller or Parent (unless immediate action is reasonably required to protect the interests of the Administrator or Purchasers), itself perform, or cause performance of, such agreement or obligation, and the expenses of the Administrator or its designee incurred in connection therewith shall be payable by Seller or Parent, as the case may be.

(d) Continuation Statements; Opinion. Without limiting the generality of subsection (a), Seller will, not earlier than six (6) months and not later than three (3) months prior to the fifth anniversary of the date of filing of the financing statement referred to in Section 5.01(d) or any other financing statement filed pursuant to this Agreement or in connection with any Purchase hereunder, unless the Final Payout Date shall have occurred, (i) execute, if required, and deliver and file or cause to be filed an appropriate continuation statement with respect to such financing statement and (ii) deliver an opinion of counsel, from counsel reasonably satisfactory to the Administrator, to the effect that the Administrator has a perfected interest in the Pool Assets, free and clear of all other Liens (subject to customary assumptions and exclusions).

SECTION 8.06. Application of Collections. Any payment by an Obligor in respect of any indebtedness owed by it to Seller shall, (i) except as otherwise specified by such Obligor, (ii) except as otherwise required by the underlying Contract or law or (iii) unless the Administrator instructs otherwise, be applied, first, as a Collection of any Pool Receivable or Receivables then outstanding of such Obligor in the order of the age of such Pool Receivables,

starting with the oldest of such Pool Receivable and, second, to any other indebtedness of such Obligor.

ARTICLE IX

SECURITY INTEREST

SECTION 9.01. Grant of Security Interest. To secure all obligations of Seller arising in connection with this Agreement and each other Transaction Document, whether now or hereafter existing, due or to become due, direct or indirect, or absolute or contingent, including, without limitation, all Indemnified Amounts, payments on account of Collections of Pool Receivables received or deemed to be received and fees, Seller hereby assigns and grants to Administrator, for the benefit of the Secured Parties, a security interest in all of Seller's right, title and interest (including specifically any undivided interest retained by Seller hereunder) now or hereafter existing in, to and under all of the Pool Assets.

SECTION 9.02. Further Assurances. The provisions of Section 8.05 shall apply to the security interest granted under Section 9.01 as well as to the Purchases, Reinvestments and the Asset Interest hereunder.

SECTION 9.03. Remedies. Upon the occurrence of a Liquidation Event, the Administrator and Purchasers shall have, with respect to the collateral granted pursuant to Section 9.01, and in addition to all other rights and remedies available to Purchaser or the Administrator under this Agreement or other applicable law, all the rights and remedies of a secured party upon default under the UCC.

ARTICLE X

LIQUIDATION EVENTS

SECTION 10.01. Liquidation Events. The following events shall be "Liquidation Events" hereunder:

(a) (i) Servicer (if Parent or an Affiliate of Parent is Servicer) shall fail to perform or observe any obligation of Servicer to provide any Servicer Report or Mid-Month Report when due hereunder, (ii) Servicer (if Parent or an Affiliate of Parent is Servicer) shall fail to perform any obligation of Servicer pursuant to Section 8.02(a) or (c) and such failure shall remain unremedied for more than three Business Days after written notice thereof shall have been given by the Administrator to Servicer or (iii) Seller or Servicer (if Parent or its Affiliate is Servicer) shall fail to make any payment or deposit to be made by it hereunder within two (2) Business Days of the date when due; or

(b) Any representation or warranty made or deemed to be made by Seller, Parent or the Originator under or in connection with this Agreement, any other Transaction Document, any

Mid-Month Report or any Servicer Report or other information or report delivered pursuant hereto shall prove to have been inaccurate in any material respect when made; or

(c) Seller, Parent or the Originator shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or any of the other Transaction Documents on its part to be performed or observed and any such failure shall continue unremedied for thirty (30) days after written notice thereof shall have been given by the Administrator to Seller or Parent, as the case may be; or

(d) A default shall have occurred and be continuing under any instrument or agreement evidencing, securing or relating to Indebtedness in excess of $25,000,000 of, or guaranteed by, Parent or any Subsidiary thereof, which default is a payment default or if unremedied, uncured, or unwaived (with or without the passage of time or the giving of notice or both) would permit acceleration of the maturity of such indebtedness and such default shall have continued unremedied, uncured or unwaived for a period long enough to permit such acceleration; or

(e) This Agreement or any Purchase or any Reinvestment pursuant to this Agreement shall for any reason (other than pursuant to the terms hereof) (i) cease to create, or the Asset Interest shall for any reason cease to be, a valid and enforceable perfected undivided percentage interest to the extent of the Asset Interest in each Pool Asset, free and clear of any other Lien (other than a Lien arising solely as the result of any action taken by a Purchaser or the Administrator) or (ii) cease to create with respect to the items described in Section 9.01, or the interest of the Administrator (for the benefit of Purchasers) with respect to such items shall cease to be, a valid and enforceable first priority perfected security interest, free and clear of any other Lien (other than a Lien arising solely as the result of any action taken by a Purchaser or the Administrator); or

(f) An Event of Bankruptcy shall have occurred and remain continuing with respect to Seller, Parent or the Originator; or

(g) The average of the Sales-Based Dilution Ratios for any three successive Cut-Off Dates exceeds 2.50%; or

(h) The average of the Default Ratios for any three successive Cut-Off Dates exceeds 1.25%; or

(i) On any Settlement Date, after giving effect to the payments made under Section 3.01(c), the Asset Interest exceeds the Allocation Limit; or

(j) The average of the Delinquency Ratios for any three successive Cut-Off Dates is greater than 3.60%; or

(k) The average of the Collection Ratios for any two consecutive Cut-Off Dates is less than 84%; or

(l) There shall exist any event or occurrence that has caused a Material Adverse Effect; or

(m) Seller or Parent is subject to a Change-in-Control; or

(n) The Internal Revenue Service shall file notice of a lien pursuant to Section 6323 of the Internal Revenue Code with regard to any of the assets of Seller or Parent and such lien shall not have been released within seven (7) days, or the Pension Benefit Guaranty Corporation shall file notice of a lien pursuant to Section 4068 of the Employee Retirement Income Security Act of 1974 with regard to any of the assets of Seller or Parent and such lien shall not have been released within seven (7) days.

SECTION 10.02. Remedies.

(a) Optional Liquidation. Upon the occurrence of a Liquidation Event (other than a Liquidation Event described in subsection (f) of Section 10.01), the Administrator shall, at the request, or may with the consent, of Purchasers, by notice to Seller declare the Purchase Termination Date to have occurred and the Liquidation Period to have commenced.

(b) Automatic Liquidation. Upon the occurrence of a Liquidation Event described in (i) subsection (f) of Section 10.01 with respect to Parent or Seller or (ii) subsection (i) of Section 10.01 and the continuance thereof for more than two (2) Business Days, the Purchase Termination Date shall occur and the Liquidation Period shall commence automatically.

(c) Additional Remedies. Upon any Purchase Termination Date occurring pursuant to this Section 10.02, no Purchases or Reinvestments thereafter will be made, and the Administrator and each Purchaser shall have, in addition to all other rights and remedies under this Agreement or otherwise, all other rights and remedies provided under the UCC of each applicable jurisdiction and other Applicable Law, which rights shall be cumulative, including the right to foreclose upon and sell all, or any portion, of the Pool Assets in a public or private sale (and Seller hereby agrees that ten (10) days prior notice of any such sale shall be commercially reasonable notice thereof).

ARTICLE XI

THE ADMINISTRATOR

SECTION 11.01. Authorization and Action. Pursuant to the Program Agreements, each Purchaser has appointed and authorized the Administrator (or its designees) to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrator by the terms hereof, together with such powers as are reasonably incidental thereto.

SECTION 11.02. Administrator's Reliance, Etc. The Administrator and its directors, officers, agents or employees shall not be liable for any action taken or omitted to be taken by it or them under or in connection with the Transaction Documents (including, without limitation, the servicing, administering or collecting of Pool Receivables as Servicer pursuant to Section 8.01), except for its or their own gross negligence, bad faith or willful misconduct. Without limiting the generality of the foregoing, the Administrator: (a) may consult with legal counsel,

independent certified public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (b) makes no warranty or representation to any Purchaser or any other holder of any interest in Pool Receivables and shall not be responsible to any Purchaser or any such other holder for any statements, warranties or representations made in or in connection with any Transaction Document; (c) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of any Transaction Document on the part of Seller or Parent or to inspect the property (including the books and records) of Seller, the Originator or Parent; (d) shall not be responsible to Purchaser or any other holder of any interest in Pool Receivables for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Transaction Document or any Receivable; and (e) shall incur no liability under or in respect of this Agreement by acting upon any notice (including notice by telephone), consent, certificate or other instrument or writing (which may be by facsimile) believed by it in good faith to be genuine and signed or sent by the proper party or parties.

SECTION 11.03. Fleet and Affiliates. Fleet and any of its Affiliates may generally engage in any kind of business with Seller, Parent, the Originator or any Obligor, any of their respective Affiliates and any Person who may do business with or own securities of Seller, Parent, the Originator or any Obligor or any of their respective Affiliates, all as if Fleet were not the Administrator, and without any duty to account therefor to any Purchaser or any other holder of an interest in Pool Receivables.

ARTICLE XII

ASSIGNMENT OF PURCHASER'S INTEREST

SECTION 12.01. Restrictions on Assignments.

(a) Neither Seller nor Parent may assign its rights, or delegate its duties, hereunder or any interest herein without the prior written consent of the Administrator. No Purchaser may assign its rights hereunder (although it may delegate its duties hereunder as expressly indicated herein) or the Asset Interest (or any portion thereof) to any Person without the prior written consent of Seller, which consent shall not be unreasonably withheld; provided, however, that, without such consent, Conduit Purchaser may assign all of its rights and interests in the Transaction Documents, together with all its interest in the Asset Interest, to (i) Fleet or any Subsidiary thereof, or (ii) to any "bankruptcy remote" special purpose entity the business of which is administered by Fleet or any Subsidiary thereof, so long as such entity has the ability to issue commercial paper notes, or to cause the issuance of commercial paper notes, to fund the Asset Interest or (iii) to any Liquidity Bank (or agent on behalf of the Liquidity Banks). If Conduit Purchaser notifies Seller and Parent that it has decided to assign its rights and delegate its duties hereunder to the Liquidity Banks (or an agent therefor) and the Liquidity Banks agree to assume the obligations of the Conduit Purchaser hereunder, Seller and Parent agree to enter into such amendments hereto and to the other Transaction Documents as the Administrator may reasonably request to reflect such assignment and delegation.

(b) Seller agrees to advise the Administrator within five (5) Business Days after notice to Seller of any proposed assignment by a Purchaser of the Asset Interest (or any portion thereof), not otherwise permitted under subsection (a), of Seller's consent or non-consent to such assignment. All of the aforementioned assignments shall be upon such terms and conditions as the assigning Purchaser and the assignee may mutually agree.

SECTION 12.02. Rights of Assignee. Upon the assignment by a Purchaser in accordance with this Article XII, the assignee receiving such assignment shall have all of the rights and shall assume in writing all of the obligations of the assigning Purchaser with respect to the Transaction Documents and the Asset Interest (or such portion thereof as has been assigned), and the assigning Purchaser shall be released from such obligations.

ARTICLE XIII

INDEMNIFICATION

SECTION 13.01. Indemnities.

(a) General Indemnity by Seller. Without limiting any other rights which any such Person may have hereunder or under Applicable Law, Seller hereby agrees to indemnify each of the Administrator, each Purchaser, each Program Support Provider, each of their respective Affiliates, and all successors, permitted transferees, participants and permitted assigns and all officers, directors, shareholders, members, controlling persons, employees and agents of any of the foregoing (each an "Indemnified Party"), within five (5) Business Days of demand, from and against any and all damages, losses, claims, liabilities and related costs and expenses, including reasonable attorneys' fees and disbursements (all of the foregoing being collectively referred to as "Indemnified Amounts") awarded against or incurred by any of them arising out of or relating to the Transaction Documents or the ownership or funding of the Asset Interest or in respect of any Receivable or any Contract, excluding, however, (a) Indemnified Amounts to the extent determined by a court of competent jurisdiction to have resulted from gross negligence, bad faith or willful misconduct on the part of such Indemnified Party or (b) Indemnified Amounts which have the effect of recourse for non-payment of the Pool Receivables due to credit problems of the Obligors (except as otherwise specifically provided in this Agreement). Without limiting the foregoing, Seller shall indemnify each Indemnified Party for Indemnified Amounts arising out of or relating to:

(i) the transfer by Seller of any interest in any Pool Receivable other than the transfer of an Asset Interest to the Administrator, for the benefit of Purchasers, pursuant to this Agreement and the grant of a security interest to the Administrator pursuant to Section 9.01;

(ii) any representation or warranty made by Seller under or in connection with any Transaction Document, any Servicer Report, any Mid-Month Report or any other information or report delivered by or on behalf of Seller pursuant hereto, which shall have been false, incorrect or misleading in any respect when made;

(iii) the failure by Seller to comply with any Applicable Law, or the nonconformity of any Pool Receivable or the related Contract with any Applicable Law;

(iv) the failure to vest and maintain vested in the Administrator, for the benefit of Purchasers, an undivided percentage ownership interest, to the extent of the Asset Interest, in the Pool Assets, free and clear of any Lien, other than a Lien created pursuant to this Agreement or any other Transaction Document or arising solely as a result of an act of a Purchaser or the Administrator, whether existing at the time of any Purchase or Reinvestment of such Asset Interest or at any time thereafter;

(v) the failure to file, or any delay in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Pool Assets, whether at the time of any Purchase or Reinvestment or at any time thereafter;

(vi) any dispute, claim, offset or defense (other than discharge in bankruptcy or payment) of any Obligor to the payment of any Receivable in, or purporting to be in, the Receivables Pool (including, without limitation, a defense based on such Receivable or the related Contract not being a legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from the sale of the merchandise or services related to such Receivable or the furnishing or failure to furnish such merchandise or services;

(vii) any breach by Seller of any of its covenants or agreements under this Agreement or any other Transaction Document;

(viii) any products liability claim arising out of or in connection with merchandise or services that are the subject of any Pool Receivable;

(ix) any litigation, proceeding or investigation against Seller; or

(x) any tax or governmental fee or charge (but not including taxes upon or measured by net income or representing a franchise or unincorporated business tax of such Person), all interest and penalties thereon or with respect thereto, and all out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of the purchase or ownership of any Asset Interest, or any other interest in the Pool Receivables or in any goods which secure any such Pool Receivables.

(b) Indemnity by Servicer. Without limiting any other rights which any such Person may have hereunder or under applicable law, Servicer hereby agrees to indemnify each Indemnified Party, within five (5) Business Days of demand, from and against any and all Indemnified Amounts awarded against or incurred by any of them arising out of or relating to (i) any representation or warranty made by Servicer under or in connection with any Transaction Document, any Servicer Report, any Mid-Month Report or any other information or report delivered by or on behalf of Servicer pursuant hereto, which shall have been false, incorrect or misleading when made, (ii) the failure by Servicer to comply with any Applicable Law, (iii) any breach by Servicer of any of its covenants or agreements under this Agreement or any other

Transaction Document or (iv) the commingling of any Collections with other funds. Notwithstanding the foregoing, in no event shall any Indemnified Party be awarded any Indemnified Amounts pursuant to this Section 13.01(b) (a) to the extent determined by a court of competent jurisdiction to have resulted from gross negligence or willful misconduct on the part of such Indemnified Party or (b) for recourse for Defaulted Receivables.

(c) After-Tax Basis. Indemnification hereunder shall be in an amount necessary to make the Indemnified Party whole after taking into account any tax consequences to the Indemnified Party of the receipt of the indemnity provided hereunder, including the effect of such tax or refund on the amount of tax measured by net income or profits which is or was payable by the Indemnified Party.

ARTICLE XIV

MISCELLANEOUS

SECTION 14.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by any party therefrom shall in any event be effective unless the same shall be in writing and signed by (a) Seller, the Administrator, Parent and each Purchaser (with respect to an amendment) or (b) the Administrator and each Purchaser (with respect to a waiver or consent by them) or Seller or Parent (with respect to a waiver or consent by it), as the case may be, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The parties acknowledge that, before entering into such an amendment or granting such a waiver or consent, Conduit Purchaser may also be required to obtain the approval of some or all of the Program Support Providers or to obtain confirmation from certain rating agencies that such amendment, waiver or consent will not result in a withdrawal or reduction of the ratings of the Commercial Paper Notes.

SECTION 14.02. Notices, Etc. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including facsimile communication) and shall be personally delivered or sent by express mail or courier or by certified mail, postage prepaid, or by facsimile, to the intended party at the address or facsimile number of such party set forth under its name on Schedule 14.02 or at such other address or facsimile number as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be effective, (a) if personally delivered or sent by express mail or courier or if sent by certified mail, when received, and (b) if transmitted by facsimile, when sent, receipt confirmed by telephone or electronic means, if sent during business hours on a Business Day or on the next Business Day in all other cases.

SECTION 14.03. No Waiver; Remedies. No failure on the part of the Administrator, any Affected Party, any Indemnified Party, any Purchaser or any other holder of the Asset Interest (or any portion thereof) to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 14.04. Binding Effect; Survival. This Agreement shall be binding upon and inure to the benefit of Seller, Parent, the Administrator, each Purchaser and their respective successors and assigns, and the provisions of Section 4.02 and Article XIII shall inure to the benefit of the Affected Parties and the Indemnified Parties, respectively, and their respective successors and assigns; provided, however, nothing in the foregoing shall be deemed to authorize any assignment not permitted by Section 12.01. This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until the Final Payout Date. The rights and remedies with respect to any breach of any representation and warranty made by Seller or Parent pursuant to Article VI and the provisions of Article XIII and Sections 4.02, 14.05, 14.06, 14.07, 14.08 and 14.15 shall be continuing and shall survive any termination of this Agreement.

SECTION 14.05. Costs, Expenses and Taxes. In addition to its obligations under Article XIII, Seller or Parent, as the case may be, agrees to pay within five Business Days of demand;

(a) all costs and expenses incurred by the Administrator, any Program Support Provider and any Purchaser and their respective Affiliates, in connection with the enforcement after the occurrence of a Liquidation Event against Seller or Parent, as the case may be, of, or any breach by Seller or Parent, as the case may be, of, this Agreement and the other Transaction Documents, including, without limitation (A) the reasonable fees and expenses of counsel to any of such Persons incurred in connection with any of the foregoing or in advising such Persons as to their respective rights and remedies under any of the Transaction Documents, and (B) all reasonable out-of-pocket expenses (including reasonable fees and expenses of independent accountants incurred in connection with any review of Seller's or Parent's, as the case may be, books and records either prior to the execution and delivery hereof or pursuant to Section 7.01(c) or otherwise); and

(b) all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Agreement or the other Transaction Documents, and agrees to indemnify each Indemnified Party against any liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

SECTION 14.06. No Proceedings; Limitations on Recourse. Seller, Parent, Servicer, each Purchaser (other than Conduit Purchaser) and Fleet Securities (individually and as Administrator) each hereby agrees that it will not institute against Conduit Purchaser, or join any other Person in instituting against Conduit Purchaser, any insolvency proceeding (namely, any proceeding of the type referred to in the definition of Event of Bankruptcy) so long as any Commercial Paper Notes shall be outstanding or there shall not have elapsed one year plus one day since the last day on which any such Commercial Paper Notes shall have been outstanding. The parties hereto agree that Conduit Purchaser shall have no obligations to make any payments hereunder (collectively, "Purchaser Payments"), and that such Purchaser Payments shall not constitute a claim against Conduit Purchaser as defined in Section 101 of the Bankruptcy Code, unless and until Conduit Purchaser has amounts sufficient to pay such Purchaser Payments from the Asset Interest or pursuant to the Liquidity Agreement and such amounts are not required to repay Commercial Paper Notes of Conduit Purchaser or loans to Conduit Purchaser funded by

Commercial Paper Notes. Conduit Purchaser shall not have any obligation to pay any amounts owing hereunder unless and until Conduit Purchaser has received such amounts.

SECTION 14.07. Confidentiality of Program Information.

(a) Confidential Information. Each party hereto acknowledges that Fleet Securities regards the structure of the transactions contemplated by this Agreement to be proprietary, and each such party severally agrees that:

(i) it will not disclose without the prior consent of Fleet Securities or as is required or authorized by the Transaction Documents (other than to the directors, employees, agents, auditors, counsel or affiliates (collectively, "representatives") of such party, each of whom shall be informed by such party of the confidential nature of the Program Information (as defined below) and of the terms of this Section 14.07), (A) any information regarding the pricing in, or copies of, this Agreement or any transaction contemplated hereby, (B) any information regarding the organization, business or operations of Conduit Purchaser generally or the services performed by the Administrator for Conduit Purchaser, or (C) any information which is furnished by Fleet Securities to such party and which is designated by Fleet Securities to such party in writing as confidential or not otherwise available to the general public (the information referred to in clauses (A), (B) and (C) is collectively referred to as the "Program Information"); provided, however, that such party may disclose any such Program Information (I) to any other party to this Agreement for the purposes contemplated hereby, (II) as may be required by any Governmental Authority having or claiming to have jurisdiction over such party, (III) in order to comply with Applicable Law, including, without limitation, by filing the Transaction Documents with the Securities and Exchange Commission (provided that neither Seller nor Parent shall file the Fee Letter, or, if required by Applicable Law to file the Fee Letter, Parent or Seller, as the case may be, shall request confidential treatment therefor) or (IV) subject to subsection (c), in the event such party is legally compelled (by interrogatories, requests for information or copies, subpoena, civil investigative demand or similar process) to disclose any such Program Information, unless legally compelled not to do so;

(ii) it will use the Program Information solely for the purposes of evaluating, administering and enforcing the transactions contemplated by this Agreement and making any necessary business judgments with respect thereto; and

(iii) it will, upon demand, return (and cause each of its representatives to return) to Fleet Securities, all documents or other written material (other than documents executed by such party) received from Fleet Securities, as the case may be, in connection with (a)(i)(B) or (C) above and all copies thereof made by such party which contain the Program Information.

(b) Availability of Confidential Information. This Section 14.07 shall be inoperative as to such portions of the Program Information which are or become generally available to the public or such party on a nonconfidential basis from a source other than Fleet Securities or were known to such party on a nonconfidential basis prior to its disclosure by Fleet Securities.

(c) Legal Compulsion to Disclose. In the event that any party or anyone to whom such party or its representatives transmits the Program Information is requested or becomes legally compelled (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any of the Program Information, such party will, to the extent that it may legally do so,

(i) provide Fleet Securities with prompt written notice so that Fleet Securities may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 14.07; and

(ii) unless Fleet Securities waives compliance by such party with the provisions of this Section 14.07, make a timely objection to the request or confirmation to provide such Program Information on the basis that such Program Information is confidential and subject to the agreements contained in this Section 14.07.

In the event that such protective order or other remedy is not obtained, or Fleet Securities waives compliance with the provisions of this Section 14.07, such party will furnish only that portion of the Program Information which (in such party's good faith judgment) is legally required to be furnished and will exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Program Information.

(d) Survival. This Section 14.07 shall survive termination of this Agreement.

SECTION 14.08. Confidentiality of Parent Information.

(a) Confidential Information. Each party hereto acknowledges that each of Seller and Parent regards certain information to be proprietary, and each such party severally agrees that:

(i) it will not disclose without the prior consent of Parent or as is required or authorized by the Transaction Documents (other than to the directors, employees, agents, auditors, counsel or affiliates (collectively, "representatives") of such party, each of whom shall be informed by such party of the confidential nature of the Parent Information (as defined below) and of the terms of this Section 14.08), any information which is furnished by Parent to such party and which is designated by Parent or Seller to such party in writing as confidential or not otherwise available to the general public ("Parent Information"); provided, however, that such party may disclose any such Parent Information (I) to any other party to this Agreement for the purposes contemplated hereby, (II) as may be required by any Governmental Authority having or claiming to have jurisdiction over such party, (III) in order to comply with any Applicable Law, (IV) subject to subsection (c), in the event such party is legally compelled (by interrogatories, requests for information or copies, subpoena, civil investigative demand or similar process) to disclose any such Parent Information, (V) to any Affected Party or any Program Support Provider, (VI) to the Rating Agencies, or (VII) to any potential Liquidity Bank or any potential assignee or participant of any Liquidity Bank (provided such Person has agreed to be bound by the terms of this Section 14.08), and any placement agent for, or investor or potential investor in, the Commercial Paper Notes; and

(ii) it will use the Parent Information solely for the purposes of evaluating, administering and enforcing the transactions contemplated by this Agreement and making any necessary business judgments with respect thereto.

(b) Availability of Confidential Information. This Section 14.08 shall be inoperative as to such portions of the Parent Information which are or become generally available to the public or such party on a nonconfidential basis from a source other than Parent or were known to such party on a nonconfidential basis prior to its disclosure by Parent.

(c) Legal Compulsion to Disclose. In the event that any party or anyone to whom such party or its representatives transmits the Parent Information is requested or becomes legally compelled (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any of the Parent Information, such party will, to the extent that it may legally do so,

(i) provide Parent with prompt written notice so that Parent may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Section 14.08; and

(ii) unless Parent waives compliance by such party with the provisions of this Section 14.08, make a timely objection to the request or confirmation to provide such Parent Information on the basis that such Parent Information is confidential and subject to the agreements contained in this Section 14.08.

In the event that such protective order or other remedy is not obtained, or Parent waives compliance with the provisions of this Section 14.08, such party will furnish only that portion of the Parent Information which (in such party's good faith judgment) is legally required to be furnished and will exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Parent Information.

(d) Survival. This Section 14.08 shall survive termination of this Agreement.

SECTION 14.09. Captions and Cross References. The various captions (including, without limitation, the table of contents) in this Agreement are provided solely for convenience of reference and shall not affect the meaning or interpretation of any provision of this Agreement. Unless otherwise indicated, references in this Agreement to any Section, Appendix, Schedule or Exhibit are to such Section of or Appendix, Schedule or Exhibit to this Agreement, as the case may be, and references in any Section, subsection, or clause to any subsection, clause or subclause are to such subsection, clause or subclause of such Section, subsection or clause.

SECTION 14.10. Integration. This Agreement and the other Transaction Documents contain a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire understanding among the parties hereto with respect to the subject matter hereof, superseding all prior oral or written understandings.

SECTION 14.11. GOVERNING LAW. THIS AGREEMENT, INCLUDING THE RIGHTS AND DUTIES OF THE PARTIES HERETO, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW

YORK, EXCEPT TO THE EXTENT THAT THE PERFECTION OF THE INTERESTS OF THE ADMINISTRATOR IN THE POOL ASSETS IS GOVERNED BY THE LAWS OF THE JURISDICTION OTHER THAN THE STATE OF NEW YORK.

SECTION 14.12. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY OTHER TRANSACTION DOCUMENT OR UNDER ANY AMENDMENT, INSTRUMENT OR DOCUMENT DELIVERED OR WHICH MAY BE IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT A JURY TRIAL.

SECTION 14.13. CONSENT TO JURISDICTION; WAIVER OF IMMUNITIES. EACH PARTY HERETO HEREBY ACKNOWLEDGES AND AGREES THAT:

(a) IT HEREBY IRREVOCABLY (i) SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE OR UNITED STATES FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN, STATE OF NEW YORK, OVER ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY TRANSACTION DOCUMENT; (ii) AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH STATE OR UNITED STATES FEDERAL COURT; (iii) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING; (iv) CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO SUCH PERSON AT ITS ADDRESS SPECIFIED IN SECTION 14.02; AND (v) TO THE EXTENT ALLOWED BY LAW, AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS SECTION 14.13 SHALL AFFECT THE ADMINISTRATOR'S OR ANY PURCHASER'S RIGHT TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING ANY ACTION OR PROCEEDING AGAINST ANY OF SELLER OR PARENT OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTIONS.

(b) TO THE EXTENT THAT IT HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM THE JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID TO EXECUTION, EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, IT HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THIS AGREEMENT.

SECTION 14.14. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

SECTION 14.15. No Recourse Against Other Parties. No recourse under any obligation, covenant or agreement of Conduit Purchaser contained in this Agreement shall be had against any stockholder (solely in its capacity as stockholder), employee, officer, director, member or incorporator of Conduit Purchaser.

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

AVISTA RECEIVABLES CORP.,
as Seller

By:

Name Printed: Jon E. Eliassen
Title: Chairman of the Board and President

AVISTA CORPORATION, as initial Servicer

By:

Name Printed: Jon E. Eliassen
Title: Senior Vice President and Chief Financial Officer

EAGLEFUNDING CAPITAL CORPORATION,
as Conduit Purchaser

By: Fleet Securities, Inc., its
attorney-in-fact

By:

Name Printed:

Title:

FLEET NATIONAL BANK,
as Committed Purchaser

Commitment: $100,000,000

By:

Name Printed:

Title:

FLEET SECURITIES, INC., as Administrator

By:

Name Printed:

Title:

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

EXHIBITS

EXHIBIT 4(f)

==========

AVISTA CORPORATION

TO

CITIBANK, N.A.

As Successor Trustee under
Mortgage and Deed of Trust,
dated as of June 1, 1939

THIRTIETH SUPPLEMENTAL INDENTURE

Providing among other things for a series of bonds designated
"First Mortgage Bonds, Collateral Series due 2003"
Due May 20, 2003

Dated as of May 1, 2002

==========

THIRTIETH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of the 1st day of May 2002, between AVISTA CORPORATION (formerly known as The Washington Water Power Company), a corporation of the State of Washington, whose post office address is 1411 East Mission Avenue, Spokane, Washington 99202 (the "Company"), and CITIBANK, N.A., formerly First National City Bank (successor by merger to First National City Trust Company, formerly City Bank Farmers Trust Company), a national banking association incorporated and existing under the laws of the United States of America, whose post office address is 111 Wall Street, New York, 10043 New York (the "Trustee"), as Trustee under the Mortgage and Deed of Trust, dated as of June 1, 1939 (the "Original Mortgage"), executed and delivered by the Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions thereof, this indenture (the "Thirtieth Supplemental Indenture") being supplemental to the Original Mortgage, as heretofore supplemented and amended.

WHEREAS pursuant to a written request of the Company made in accordance with Section 103 of the Original Mortgage, Francis M. Pitt (then Individual Trustee under the Mortgage, as supplemented) ceased to be a trustee thereunder on July 23, 1969, and all of his powers as Individual Trustee have devolved upon the Trustee and its successors alone; and

WHEREAS by the Original Mortgage the Company covenanted that it would execute and deliver such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Original Mortgage and to make subject to the lien of the Original Mortgage any property thereafter acquired intended to be subject to the lien thereof; and

WHEREAS the Company has heretofore executed and delivered, in addition to the Original Mortgage, the indentures supplemental thereto, and has issued the series of bonds, set forth in Exhibit A hereto (the Mortgage, as supplemented and amended by the First through Twenty-ninth Supplemental Indentures being herein sometimes called collectively, the "Mortgage"); and

WHEREAS the Original Mortgage and the First through Twenty-eighth Supplemental Indentures have been appropriately filed or recorded in various official records in the States of Washington, California, Idaho, Montana and Oregon, as set forth in the First through Twenty-ninth Supplemental Indenture and the Instrument of Further Assurance dated December 15, 2001; and

WHEREAS the Twenty-ninth Supplemental Indenture, dated as of December 1, 2001, has been appropriately filed or recorded in the various official records in the States of Washington, California, Idaho, Montana and Oregon set forth in Exhibit B hereto; and

WHEREAS for the purpose of confirming or perfecting the lien of the Mortgage on certain of its properties, the Company has heretofore executed and delivered a Short Form Mortgage and Security Agreement, in multiple counterparts dated as of various dates in 1992, and such instrument has been appropriately filed or recorded in the various official records in the States of California, Montana and Oregon; and

WHEREAS for the purpose of conforming or perfecting the lien of the Mortgage on certain of its properties, the Company has heretofore executed and delivered an Instrument of Further Assurance, dated as of December 15, 2001, and such instrument has been appropriately filed or recorded in the various official records in the States of Washington, California, Idaho, Montana and Oregon; and

WHEREAS in addition to the property described in the Mortgage the Company has acquired certain other property, rights and interests in property; and

WHEREAS Section 8 of the Original Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of the coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company; that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof; and that such series may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

WHEREAS Section 120 of the Original Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage, whether such power, privilege or right is in any way restricted or is unrestricted, may be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein, or in any supplemental indenture, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS the Company now desires to create a new series of bonds; and

WHEREAS the execution and delivery by the Company of this Thirtieth Supplemental Indenture, and the terms of the bonds of the Twenty-eighth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate Resolutions of said Board of Directors, and all things necessary to make this Thirtieth Supplemental Indenture a valid, binding and legal instrument have been performed;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That the Company, in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, hereby confirms the estate, title and rights of the Trustee (including without limitation the lien of the Mortgage on the property of the Company subjected thereto, whether now owned or hereafter acquired) held as security for the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage according to their tenor and effect and the performance of all the provisions of the Mortgage and of such bonds, and, without limiting the generality of the foregoing, hereby

confirms the grant, bargain, sale, release, conveyance, assignment, transfer, mortgage, pledge, setting over and confirmation unto the Trustee, contained in the Mortgage, of all the following described properties of the Company, whether now owned or hereafter acquired, namely:

All of the property, real, personal and mixed, of every character and wheresoever situated (except any hereinafter or in the Mortgage expressly excepted) which the Company now owns or, subject to the provisions of Section 87 of the Mortgage, may hereafter acquire prior to the satisfaction and discharge of the Mortgage, as fully and completely as if herein or in the Mortgage specifically described, and including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in Mortgage) all lands, real estate, easements, servitudes, rights of way and leasehold and other interests in real estate; all rights to the use or appropriation of water, flowage rights, water storage rights, flooding rights, and other rights in respect of or relating to water; all plants for the generation of electricity, power houses, dams, dam sites, reservoirs, flumes, raceways, diversion works, head works, waterways, water works, water systems, gas plants, steam heat plants, hot water plants, ice or refrigeration plants, stations, substations, offices, buildings and other works and structures and the equipment thereof and all improvements, extensions and additions thereto; all generators, machinery, engines, turbines, boilers, dynamos, transformers, motors, electric machines, switchboards, regulators, meters, electrical and mechanical appliances, conduits, cables, pipes and mains; all lines and systems for the transmission and distribution of electric current, gas, steam heat or water for any purpose; all towers, mains, pipes, poles, pole lines, conduits, cables, wires, switch racks, insulators, compressors, pumps, fittings, valves and connections; all motor vehicles and automobiles; all tools, implements, apparatus, furniture, stores, supplies and equipment; all franchises (except the Company's franchise to be a corporation), licenses, permits, rights, powers and privileges; and (except as hereinafter or in the Mortgage expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Original Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

THE COMPANY HEREBY CONFIRMS that, subject to the provisions of Section 87 of the Original Mortgage, all the property, rights, and franchises acquired by the Company after the date thereof (except any hereinbefore or hereinafter or in the Mortgage expressly excepted) are and shall be as fully embraced within the lien of the Mortgage as if such property, rights and franchises had been owned by the Company at the date of the Original Mortgage and had been specifically described therein.

PROVIDED THAT the following were not and were not intended to be then or now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed under the Mortgage and were, are and shall be expressly excepted from the lien and operation namely: (l) cash, shares of stock and obligations (including bonds, notes and other securities) not hereafter specifically pledged, paid, deposited or delivered under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business or for consumption in the operation of any properties of the Company; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; (4) electric energy and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (5) any property heretofore released pursuant to any provisions of the Mortgage and not heretofore disposed of by the Company; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event that the Trustee or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XII of the Original Mortgage by reason of the occurrence of a Completed Default as defined in said Article XII.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company in the Mortgage as aforesaid, or intended so to be, unto the Trustee, and its successors, heirs and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as set forth in the Mortgage, this Thirtieth Supplemental Indenture being supplemental to the Mortgage.

AND IT IS HEREBY FURTHER CONFIRMED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage shall affect and apply to the property in the Mortgage described and conveyed, and to the estates, rights, obligations and duties of the Company and the Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors in the trust, in the same manner and with the same effect as if the said property had been owned by the Company at the time of the execution of the Original Mortgage, and had been specifically and at length described in and conveyed to said Trustee by the Original Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee and its successor or successors in such trust under the Mortgage, as follows:

ARTICLE I

TWENTY-EIGHTH SERIES OF BONDS

SECTION 1. (I) There shall be a series of bonds designated "Collateral Series due 2003" (herein sometimes referred to as the "Twenty-eighth Series"), each of which shall also

bear the descriptive title First Mortgage Bond, and the form thereof, which has been established by Resolution of the Board of Directors of the Company, is set forth on Exhibit C hereto. Bonds of the Twenty-eighth Series shall be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, any amount in excess thereof (the exercise of such option to be evidenced by the execution and delivery thereof) and shall be dated as in Section 10 of the Mortgage provided. Each bond of the Twenty-eighth Series shall mature on May 20, 2003 and shall bear interest, be redeemable and have such other terms and provisions as set forth below.

(II) The Bonds of the Twenty-eighth Series shall have the following terms and characteristics:

(a) the Bonds of the Twenty-eighth Series shall be initially authenticated and delivered under the Indenture in the aggregate principal amount of $225,000,000;

(b) the Bonds of the Twenty-eighth Series shall bear interest at the rate of ten per centum (10%) per annum; interest on such bonds shall accrue from and including the date of the initial authentication and delivery thereof, except as otherwise provided in the form of bond attached hereto as Exhibit C; interest on such bonds shall be payable on each Interest Payment Date and at Maturity (as each of such terms is hereafter defined); and interest on such bonds during any period less than one year for which payment is made shall be computed in accordance with the Credit Agreement (as hereinafter defined);

(c) the principal of and premium, if any, and interest on each bond of the Twenty-eighth Series payable at Maturity shall be payable upon presentation thereof at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency as at the time of payment is legal tender for public and private debts. The interest on each Bond of the Twenty-eighth Series (other than interest payable at Maturity) shall be payable directly to the registered owners thereof;

(d) the Bonds of the Twenty-eighth Series shall not be redeemable, in whole or in part, at the option of the Company;

(e) (i) the Bonds of the Twenty-eighth Series are to be issued and delivered to the Administrative Agent (as hereinafter defined) in order to provide the benefit of the lien of the Mortgage as security for the obligation of the Company under the Credit Agreement to pay the Obligations (as hereinafter defined), to the extent and subject to the limitations set forth in clauses (iii) and (iv) of this subdivision;

(ii) upon the earliest of (A) the occurrence of an Event of Default under the Credit Agreement, and further upon the condition that, in accordance with the terms of the Credit Agreement, the Commitments (as hereinafter defined) shall have been or shall have terminated and any Loans (as hereinafter defined) outstanding shall have been declared to be or shall have otherwise become due and payable immediately and the Administrative Agent shall have delivered to the Company a notice demanding redemption of the Bonds of the Twenty-eighth Series which notice states that it is being

delivered pursuant to Article VII of the Credit Agreement, (B) the occurrence of an Event of Default under clause (g) or (h) of Article VII of the Credit Agreement, and (C) May 20, 2003, then all Bonds of the Twenty-eighth Series shall be redeemed or paid immediately at the principal amount thereof plus accrued interest to the date of redemption or payment;

(iii) the obligation of the Company to pay the accrued interest on Bonds of the Twenty-eighth Series on any Interest Payment Date prior to Maturity (a) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid or (b) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid (not in excess, however, of the amount otherwise then due in respect of interest on the Bonds of the Twenty-eighth Series);

(iv) the obligation of the Company to pay the principal of and accrued interest on Bonds of the Twenty-eighth Series at or after Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid (not in excess, however, of the amount otherwise then due in respect of principal of and accrued interest on the Bonds of the Twenty-eighth Series).

(v) the Trustee shall be entitled to presume that the obligation of the Company to pay the principal of and interest on the Bonds of the Twenty-eighth Series as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer thereof, stating that the principal of and/or interest on the Bonds of the Twenty-eighth Series has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment;

(f) no service charge shall be made for the registration of transfer or exchange of Bonds of the Twenty-eighth Series;

(g) in the event of an application by the Administrative Agent for a substituted Bond of the Twenty-eighth Series pursuant to Section 16 of the Original Mortgage, the Administrative Agent shall not be required to provide any indemnity or pay any expenses or charges as contemplated in said Section 16; and

(h) the Bonds of the Twenty-eighth Series shall have such other terms as are set forth in the form of bond attached hereto as Exhibit C.

Anything in this Supplemental Indenture or in the Bonds of the Twenty-eighth Series to the contrary notwithstanding, if, at the time of the Maturity of such Bonds, the stated aggregate principal amount of such Bonds then Outstanding shall exceed the aggregate Revolving Credit Exposures (as hereinafter defined), the aggregate principal amount of such Bonds shall be deemed to have been reduced by the amount of such excess.

(III) For all purposes of this Thirtieth Supplemental Indenture, except as otherwise expressly provided or unless the context otherwise requires, the terms defined below shall have the meanings specified:

"ADMINISTRATIVE AGENT" means The Bank of New York, in its capacity as Administrative Agent under the Credit Agreement.

"BOND DELIVERY AGREEMENT" means the Bond Delivery Agreement, dated May 21, 2002 between the Company and the Administrative Agent.

"CREDIT AGREEMENT" means the Credit Agreement, dated as of May 21, 2002, among the Company, the banks parties thereto, Keybank and Washington Mutual Bank, as Co-Agents, U.S. Bank, National Association, as Managing Agent, Fleet National Bank and Wells Fargo Bank, as Documentation Agents, Union Bank of California, N.A., as Syndication Agent, and The Bank of New York as Administrative Agent and Issuing Bank, as amended, supplemented or otherwise modified from time to time.

"INTEREST PAYMENT DATE" means June 30, 2002, September 30, 2002, December 31, 2002 and March 31, 2003.

"MATURITY" means the date on which the principal of the Bonds of the Twenty-eighth Series becomes due and payable, whether at stated maturity, upon redemption or acceleration, or otherwise.

"OBLIGATIONS" shall have the meaning specified in the Bond Delivery Agreement.

"COMMITMENTS", "LOANS" and "REVOLVING CREDIT EXPOSURES" shall have the meanings specified in the Credit Agreement:

A copy of the Credit Agreement is on file at the office of the Administrative Agent at One Wall Street, 18th Floor, New York, NY 10286 and at the office of the Company at 1411 East Mission Avenue, Spokane, WA 99202.

(IV) Upon the delivery of this Thirtieth Supplemental Indenture, bonds of the Twenty-eighth Series in an aggregate principal amount not to exceed $225,000,000 are to be issued and will be Outstanding, in addition to $313,500,000 aggregate principal amount of bonds of prior series Outstanding at the date of delivery of this Thirtieth Supplemental Indenture.

ARTICLE II

MISCELLANEOUS PROVISIONS

SECTION 1. The terms defined in the Original Mortgage shall, for all purposes of this Thirtieth Supplemental Indenture, have the meanings specified in the Original Mortgage.

SECTION 2. The Trustee hereby confirms its acceptance of the trusts in the Original Mortgage declared, provided, created or supplemented and agrees to perform the same upon the terms and conditions in the Original Mortgage set forth, including the following:

The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Thirtieth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. Each and every term and condition contained in Article XVI of the Original Mortgage, shall apply to and form part of this Thirtieth Supplemental Indenture with the same force and effect as if the same were herein set forth in full, with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Thirtieth Supplemental Indenture.

SECTION 3. Whenever in this Thirtieth Supplemental Indenture either of the parties hereto is named or referred to, this shall, subject to the provisions of Articles XV and XVI of the Original Mortgage be deemed to include the successors and assigns of such party, and all the covenants and agreements in this Thirtieth Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustee, or either of them, shall, subject as aforesaid, bind and inure to the respective benefits of the respective successors and assigns of such parties, whether so expressed or not.

SECTION 4. Nothing in this Thirtieth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy or claim under or by reason of this Thirtieth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Thirtieth Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 5. This Thirtieth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6. The titles of the several Articles of this Thirtieth Supplemental Indenture shall not be deemed to be any part thereof.

IN WITNESS WHEREOF, on the ___ day of May 2002, AVISTA CORPORATION has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Corporate Secretary or one of its Assistant Corporate Secretaries for and in its behalf, all in The City of Spokane, Washington, as of the day and year first above written; and on the ___ day of May, 2002, CITIBANK, N.A., has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents or one of its Senior Trust Officers or one of its Trust Officers and its corporate seal to be attested by one of its Vice Presidents or one of its Trust Officers, all in The City of New York, New York, as of the day and year first above written.

AVISTA CORPORATION

By /s/ Jon E. Eliassen

Senior Vice President

Attest:

/s/ Susan Y. Miner

Assistant Corporate Secretary

Executed, sealed and delivered
by AVISTA CORPORATION
in the presence of:

/s/ Diane C. Thoren

/s/ Paul W. Kimball

CITIBANK, N.A., AS TRUSTEE

By /s/ Wafaa Orfy

Wafaa Orfy, Vice President

Attest:

/s/ Cindy Tsang
- ---
Cindy Tsang, Assistant Vice President

Executed, sealed and delivered
by CITIBANK, N.A.,
as trustee. in the presence of:

/s/ John J. Byrnes
- ---
John J. Byrnes
Vice President

/s/ P. DeFelice
- ---
P. DeFelice
Vice President

STATE OF WASHINGTON)
) ss.:
COUNTY OF SPOKANE)

On the ___ day of _____ 2002, before me personally appeared Jon E. Eliassen, to me known to be a Senior Vice President of AVISTA CORPORATION, one of the corporations that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said Corporation for the uses and purposes therein mentioned and on oath stated that he was authorized to execute said instrument and that the seal affixed is the corporate seal of said Corporation.

On the _____ day of _____ 2002, before me, Sue Miner, a Notary Public in and for the State and County aforesaid, personally appeared Jon E. Eliassen, known to me to be a Senior Vice President of AVISTA CORPORATION, one of the corporations that executed the within and foregoing instrument and acknowledged to me that such Corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ Sue Miner

Notary Public

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 17th day of May 2002, before me personally appeared Wafaa Orfy, to me known to be a Vice President of CITIBANK, N.A., one of the corporations that executed the within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act and deed of said Corporation for the uses and purposes therein mentioned and on oath stated that he was authorized to execute said instrument and that the seal affixed is the corporate seal of said Corporation.

On the 17th day of May 2002, before me, a Notary Public in and for the State and County aforesaid, personally appeared Cindy Tsang, known to me to be an Assistant Vice President of CITIBANK, N.A., one of the corporations that executed the within and foregoing instrument and acknowledged to me that such Corporation executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year first above written.

/s/ Peter M. Pavlyshin

Notary Public

Peter M. Pavlyshin
Notary Public, State of New York
No. 41-4991297
Qualified in Queens County
Certificate Filed in New York County
Commission Expires January 27, 2006

EXHIBIT A

MORTGAGE, SUPPLEMENTAL INDENTURES
AND SERIES OF BONDS

MORTGAGE OR SUPPLEMENTAL INDENTURE	DATED AS OF	SERIES NO.	SERIES DESIGNATION	PRINCIPAL AMOUNT ISSUED	PRINCIPAL AMOUNT OUTSTANDING
Original	June 1, 1939	1	3-1/2% Series due 1964	$22,000,000	None
First	October 1, 1952	2	3-3/4% Series due 1982	30,000,000	None
Second	May 1, 1953	3	3-7/8% Series due 1983	10,000,000	None
Third	December 1, 1955		None		
Fourth	March 15, 1957		None		
Fifth	July 1, 1957	4	4-7/8% Series due 1987	30,000,000	None
Sixth	January 1, 1958	5	4-1/8% Series due 1988	20,000,000	None
Seventh	August 1, 1958	6	4-3/8% Series due 1988	15,000,000	None
Eighth	January 1, 1959	7	4-3/4% Series due 1989	15,000,000	None
Ninth	January 1, 1960	8	5-3/8% Series due 1990	10,000,000	None
Tenth	April 1, 1964	9	4-5/8% Series due 1994	30,000,000	None
Eleventh	March 1,1965	10	4-5/8% Series due 1995	10,000,000	None
Twelfth	May 1, 1966		None		
Thirteenth	August 1, 1966	11	6 % Series due 1996	20,000,000	None
Fourteenth	April 1, 1970	12	9-1/4% Series due 2000	20,000,000	None
Fifteenth	May 1, 1973	13	7-7/8% Series due 2003	20,000,000	None
Sixteenth	February 1, 1975	14	9-3/8% Series due 2005	25,000,000	None
Seventeenth	November 1, 1976	15	8-3/4% Series due 2006	30,000,000	None
Eighteenth	June 1, 1980		None		
Nineteenth	January 1, 1981	16	14-1/8% Series due 1991	40,000,000	None
Twentieth	August 1, 1982	17	15-3/4% Series due 1990-1992	60,000,000	None
Twenty-First	September 1, 1983	18	13-1/2% Series due 2013	60,000,000	None
Twenty-Second	March 1, 1984	19	13-1/4% Series due 1994	60,000,000	None
Twenty-Third	December 1, 1986	20	9-1/4% Series due 2016	80,000,000	None
Twenty-Fourth	January 1, 1988	21	10-3/8% Series due 2018	50,000,000	None
Twenty-Fifth	October 1, 1989	22	7-1/8% Series due 2013	66,700,000	None
		23	7-2/5% Series due 2016	17,000,000	None
Twenty-Sixth	April 1, 1993	24	Secured Medium-Term Notes, Series A ($250,000,000 authorized)	250,000,000	104,500,000
Twenty-Seventh	January 1, 1994	25	Secured Medium-Term Notes, Series B ($250,000,000	161,000,000	59,000,000

			authorized)		
Twenty-Eighth	September 1, 2001	26	Collateral Series due 2002	220,000,000	220,000,000*
Twenty-Ninth	December 1, 2001	27	7.75% Series due 2007	150,000,000	150,000,000

* To be retired in connection with the authentication and delivery of the bonds of the Twenty-eighth series.

EXHIBIT 12

AVISTA CORPORATION

Computation of Ratio of Earnings to Fixed Charges and
Preferred Dividend Requirements
Consolidated
(Thousands of Dollars)

	12 months ended June 30, 2002	Years Ended December 31 2001	2000	1999	1998
Fixed charges, as defined:					
Interest expense	$104,774	$100,841	$ 64,846	$ 61,703	$ 66,158
Amortization of debt expense and premium - net	8,305	5,639	3,409	3,044	2,859
Interest portion of rentals	5,402	5,140	4,324	4,645	4,301
Total fixed charges	$118,481	$111,620	$ 72,579	$ 69,392	$ 73,318
Earnings, as defined:					
Income from continuing operations	$ 26,355	$ 59,605	$101,055	$ 28,662	$ 78,316
Add (deduct):					
Income tax expense	16,300	34,386	76,998	16,897	43,430
Total fixed charges above	118,481	111,620	72,579	69,392	73,318
Total earnings	$161,136	$205,611	$250,632	$114,951	$195,064
Ratio of earnings to fixed charges	1.36	1.84	3.45	1.66	2.66
Fixed charges and preferred dividend requirements:					
Fixed charges above	$118,481	$111,620	$ 72,579	$ 69,392	$ 73,318
Preferred dividend requirements (1)	3,936	3,835	41,820	34,003	13,057
Total	$122,417	$115,455	$114,399	$103,395	$ 86,375
Ratio of earnings to fixed charges and preferred dividend requirements	1.32	1.78	2.19	1.11	2.26

(1) Preferred dividend requirements have been grossed up to their pre-tax level.

Exhibit 99(a)

AVISTA CORPORATION

STATEMENTS OF CORPORATE OFFICERS
(Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

Each of the undersigned, Gary G. Ely, Chairman of the Board, President and Chief Executive Officer of Avista Corporation (the "Company"), and Jon E. Eliassen, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained therein fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 12, 2002

/s/ Gary G. Ely

Gary G. Ely
Chairman of the Board, President and
Chief Executive Officer

/s/ Jon E. Eliassen

Jon E. Eliassen
Senior Vice President and
Chief Financial officer