

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): December 12, 2006

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation)

1-3701
(Commission
File Number)

91-0462470
(I.R.S. Employer
Identification No.)

1411 East Mission Avenue, Spokane, Washington
(Address of principal executive offices)

99202-2600
(Zip Code)

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

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01 Other Events.

Underwriting Agreement for Common Stock

On December 12, 2006, Avista Corporation (Avista Corp.) entered into an underwriting agreement with UBS Securities LLC (UBS). The underwriting agreement is filed herewith as Exhibit 1.1. Avista Corp has agreed to sell and UBS has agreed to purchase for resale to the public, 2,750,000 shares of Avista Corp.'s common stock. The public offering price is \$25.05 per share. UBS has an over-allotment option to purchase (and resell to the public) up to an additional 412,500 shares of Avista Corp.'s common stock. The common stock is expected to be issued on December 15, 2006, subject to conditions stated in the underwriting agreement.

These shares will be issued under a registration statement previously filed with the Securities and Exchange Commission (SEC). Avista Corp. filed a prospectus supplement with the SEC in connection with this offer and sale of shares.

The net proceeds from the issuance of common stock (excluding any shares which would be issued upon the exercise of UBS' over-allotment option) of \$67.6 million (net of underwriting discounts and commissions and before Avista Corp.'s expenses) will be used to fund capital expenditures, to pay maturing debt, to pay short-term borrowings under Avista Corp.'s committed line of credit and for other corporate purposes. If UBS exercises its over-allotment option in full, the total net proceeds to Avista Corp. would be \$77.7 million.

Underwriting Agreement for First Mortgage Bonds

On December 12, 2006, Avista Corp. entered into an underwriting agreement with Goldman, Sachs & Co., as Representative of the several Underwriters, related to the planned issuance of \$150.0 million of 5.70 percent First Mortgage Bonds due in 2037. The underwriting agreement is filed herewith as Exhibit 1.2. The Form of Supplemental Indenture to Mortgage is filed herewith as Exhibit 4.1. The First Mortgage Bonds are expected to be issued on December 15, 2006, subject to conditions stated in the underwriting agreement.

These First Mortgage Bonds will be issued under a registration statement previously filed with the SEC. Avista Corp. filed a prospectus supplement with the SEC in connection with this issuance of First Mortgage Bonds.

The net proceeds from the issuance of \$148.5 million (net of discounts and before Avista Corp.'s expenses), together with other available funds, will be used to pay \$150.0 million of 7.75 percent First Mortgage Bonds that mature on January 1, 2007.

Disclosure Applicable to Both Underwriting Agreements for Common Stock and First Mortgage Bonds

This Current Report on Form 8-K is being filed for the purpose of filing exhibits to the registration statement and related prospectus supplements for the issuance of common stock and First Mortgage Bonds. All such exhibits are hereby incorporated by reference into the registration statement and related prospectus supplements by reference.

This Current Report on Form 8-K does not constitute an offer to sell or a solicitation of an offer to buy the securities described herein, and there shall not be any sale of these securities in any state or jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The sale of securities is being made only by means of a prospectus and related prospectus supplements.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

- 1.1 Underwriting Agreement, dated December 12, 2006, between Avista Corporation and UBS Securities LLC
- 1.2 Underwriting Agreement, dated December 12, 2006, between Avista Corporation and Goldman, Sachs & Co., As Representative of the Several Underwriters
- 4.1 Form of Supplemental Indenture to the Mortgage

SIGNATURES

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: December 14, 2006

/s/ Malyn K. Malquist
Malyn K. Malquist
Executive Vice President and
Chief Financial Officer

AVISTA CORPORATION
2,750,000 Shares of Common Stock

Underwriting Agreement

December 12, 2006

UBS Securities LLC,
As Representative of the several
Underwriters named in Schedule I hereto
299 Park Avenue
New York, New York 10171-0026,

Ladies and Gentlemen:

Avista Corporation, a Washington corporation (the “**Company**”), confirms its agreement with UBS Securities LLC and each of the other Underwriters named in Schedule I hereto (collectively, the “**Underwriters**”) for whom UBS Securities is acting as representative (in such capacity you shall hereinafter be referred to as the “**Representative**”), with respect to (i) the issue and sale by the Company and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Common Stock, without par value (“**Common Stock**”), and the preferred share purchase rights appurtenant thereto (the “**Rights**”), of the Company set forth in Schedule I hereto and (ii) the grant by the Company to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of 412,500 additional shares of Common Stock and the preferred share purchase rights apparent thereto, to cover over-allotments, if any. The aforesaid 2,750,000 shares of Common Stock (the “**Initial Securities**”) to be purchased by the Underwriters and all or any part of the 412,500 shares of Common Stock subject to the option described in Section 2(b) hereof (the “**Option Securities**”) are hereinafter called, collectively, the “**Securities**”. The Rights will be issued in accordance with the Rights Agreement, dated November 15, 1999 (the “**Rights Agreement**”), between the Company and the Bank of New York, as rights agent.

To the extent there is only one Underwriter named in Schedule I hereto, the terms “**Representative**” and “**Underwriters**” as used herein shall mean such Underwriter.

1. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) An “automatic shelf registration statement” as defined under Rule 405 under the Securities Act of 1933, as amended (the “**Act**”) on Form S-3 (File No. 333-139239) in respect of the Securities has been filed with the Securities and Exchange Commission (the “**Commission**”) not earlier than three years prior to the date hereof; such registration statement, and any post-effective amendment thereto, became effective on filing; and no stop order suspending the effectiveness of such registration statement has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission, and no notice of objection of the Commission to the use of such registration statement or any part thereof or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act has been received by the Company; in this agreement,

(i) the base prospectus filed as part of such registration statement, in the form in which it has most recently been filed with the Commission on or prior to the date of this Agreement, is called the “**Basic Prospectus**”;

(ii) any preliminary prospectus (including any preliminary prospectus supplement) relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act is called a “**Preliminary Prospectus**”;

(iii) such registration statement, as deemed revised pursuant to Rule 430B(f)(1) under the Act on the effective date of such registration statement for purposes of Section 11 of the Act (as such section applies to the Company and the Underwriters for the Securities pursuant to Rule 430B(f)(2) under the Act (the “**Effective Date**”)), including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act at the Effective Date but excluding the Statement of Eligibility on Form T-1, is called the “**Registration Statement**”;

(iv) the Basic Prospectus, as amended and supplemented immediately prior to the Applicable Time (as defined in Section 1(c) hereof), is called the “**Pricing Prospectus**”;

(v) the form of the final prospectus relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof is called the “**Prospectus**”;

(vi) any reference to the Basic Prospectus, the Pricing Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act, as of the date of such prospectus;

(vii) any reference to any amendment or supplement to the Basic Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the form of prospectus contained in any post-effective amendment to the Registration Statement, any prospectus supplement relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act and any documents filed under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and incorporated therein, in each case after the date of the Basic Prospectus, such Preliminary Prospectus, or the Prospectus, as the case may be;

(viii) any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and

(ix) any “issuer free writing prospectus” as defined in Rule 433 under the Act relating to the Securities is called an “**Issuer Free Writing Prospectus**”;

(b) No order preventing or suspending the use of any Preliminary Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission;

(c) the Pricing Prospectus, at the time of filing thereof with the Commission, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however,* that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein;

(d) For the purposes of this Agreement, the “Applicable Time” is 8:30 am (Eastern time) on the date of this Agreement; the Pricing Prospectus and the information included on Schedule III hereto, all considered together (together the “**Pricing Disclosure Package**”), as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however,* that this representation and warranty shall not apply to statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein; no Issuer Free Writing Prospectus listed on Schedule II(a) hereto conflicted or will conflict with the information contained in the Registration Statement, the Pricing Prospectus, or the Prospectus; and no such Issuer Free Writing Prospectus, considered together with the Pricing Disclosure Package as of the Applicable Time, included any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however,* that this representation and warranty shall not apply to statements or omissions made in an Issuer Free Writing Prospectus in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein;

(e) The documents incorporated by reference in the Pricing Prospectus and the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein; and no such documents were filed with the Commission since the Commission's close of business on the business day immediately prior to the date of this Agreement and prior to the time of the execution and delivery of this Agreement, except as set forth on Schedule II (b) hereto;

(f) The Registration Statement conforms, and any further amendments or supplements to the Registration Statement will conform, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and do not and will not, as of the Effective Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein;

(g) The Prospectus and any amendments or supplements thereto, when filed with the Commission, will conform in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and the Prospectus and any amendments and supplements thereto, when they are filed with the Commission and at the Time of Delivery (as defined below), will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein;

(h) Except as set forth in or contemplated by the Pricing Prospectus, (i) since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, there has not been (A) any material adverse change in or affecting the business, financial condition, shareholders' equity or results of

operations of the Company and its subsidiaries, considered as a whole, or any development reasonably expected to result in such a material adverse change (in each case, a “**Material Adverse Change**”), (B) any transaction entered into by the Company or any subsidiary thereof which is material to the Company and its subsidiaries as a whole other than transactions in the ordinary course of business, and (C) any change in the capital stock or long-term debt of the Company or any of its subsidiaries (except for shares of common stock issued under the Company’s Dividend-Reinvestment and Stock Purchase Plan and employee benefit plans and director and/or executive compensation plans and except for scheduled maturities of long-term debt) and (ii) neither the Company nor any of its subsidiaries has any contingent obligation which is material to the Company and its subsidiaries as a whole;

(i) The Company has been duly incorporated and is validly existing in good standing as a corporation under the laws of the State of Washington, is duly qualified to do business and in good standing as a foreign corporation under the laws of the States of Idaho, Montana and Oregon, and has corporate and other power and authority and has all material required approvals and authorizations to own, lease and operate its properties, and to transact an electric and/or gas public utility business in such jurisdictions;

(j) The Company has an authorized capitalization as set forth in the Pricing Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable;

(k) Each of Avista Capital, Inc. (“**Avista Capital**”), Avista Energy, Inc. (“**Avista Energy**”) and Advantage IQ, Inc. (“**Advantage IQ**”) is duly incorporated and validly existing in good standing under the laws of the State of Washington and has corporate and other power and authority and has all material required approvals and authorizations to own, lease and operate its properties, and to transact its business;

(l) All of the issued shares of capital stock of Avista Capital, Avista Energy and Advantage IQ have been duly and validly authorized and issued, are fully paid and non-assessable; 1,715,000 shares of Avista Capital’s capital stock are issued and outstanding and the Company is the record and beneficial owner of all shares of such capital stock; 11,822,899 shares of Avista Energy’s capital stock are issued and outstanding and Avista Capital is the record and beneficial owner of 11,801,728 shares of such capital stock; and 29,591,434 shares of Advantage IQ’s capital stock are issued and outstanding (which consist of (i) 2,031,814 shares of non-voting preferred stock and (ii) 27,559,620 shares of common stock) and Avista Capital is the record and beneficial owner of 1,849,698 shares of such preferred stock and 27,540,570 shares of such common stock; and the shares of capital stock of Avista Capital, Avista Energy and Advantage IQ that are owned directly or indirectly by the Company are owned free and clear of all security interests, liens, encumbrances, equities and claims;

(m) The Securities have been duly authorized by all necessary corporate action on the part of the Company, and, when issued and delivered against payment therefore as provided in this Agreement, the Securities will be validly issued, fully paid and nonassessable, will not be subject to any preemptive or similar rights and will be free and clear of all claims, liens, charges, encumbrances and security interests of any nature whatsoever; the Securities will be substantially in the form previously delivered to the Representative; and the Securities will conform in all material respects to the description thereof contained in the Pricing Disclosure Package and the Prospectus; except as set forth in the Pricing Prospectus, there are no outstanding options, warrants, conversion rights, subscription rights, preemptive rights, rights of first refusal or other rights or agreements of any nature outstanding to subscribe for or to purchase any shares of Common Stock of the Company or any other securities of the Company of any kind binding on the Company (except pursuant to dividend reinvestment, stock purchase or ownership, stock option, director or employee benefit plans) and there are no outstanding securities or instruments of the Company containing anti-dilution or similar provisions that will be triggered by the issuance of the Shares as described in this Agreement; there are no restrictions upon the voting or transfer of any shares of the Company's Common Stock pursuant to the Company's Restated Articles of Incorporation or By-laws; there are no agreements or other obligations (contingent or otherwise) that may require the Company to repurchase or otherwise acquire any shares of its Common Stock; no person has the right, contractual or otherwise, to cause the Company to issue to it, or to register pursuant to the Act, any shares of capital stock or other securities of the Company upon the filing of the Registration Statement or the issuance or sale of the Securities hereunder;

(n) The Common Stock is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and is currently listed and quoted on the New York Stock Exchange under the trading symbol "AVA";

(o) The issue and sale of the Securities and the compliance by the Company with all of the provisions of the Securities and this Agreement and the consummation by the Company of the transactions herein and therein contemplated will not (i) violate the Company's Restated Articles of Incorporation, as amended, or By-laws or (ii) result in a breach or violation of any of the terms or provisions of, or constitute a default under, (A) any statute or, to the knowledge of the Company, any order, rule or regulation of any court or any federal or state regulatory authority or other governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties, or (B) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, which breach, violation or default referred to in this clause (ii) would individually, or in the aggregate, have, or would be reasonably expected to have, a material adverse effect on the business, financial condition, shareholders' equity or results of operations of the Company and its subsidiaries considered as a whole (in each case, a "**Material Adverse Effect**");

(p) No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties is required for the issue and sale of the Securities or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Securities

and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Underwriters, and such consents, approvals, authorizations, filings or registrations as may be required by the Washington Utilities and Transportation Commission (the “WUTC”), the Idaho Public Utilities Commission (the “IPUC”) and the Public Utility Commission of Oregon (the “OPUC”);

(q) None of the Company, Avista Capital, Avista Energy and Advantage IQ is (i) currently in violation of its Restated Articles of Incorporation or By-laws or, (ii) except as set forth in the Pricing Prospectus, in default in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound which default, in the case of clause (ii) would have, or would be reasonably expected to have, a Material Adverse Effect, except for any such default in the performance or observance of any such obligation, agreement, covenant or condition that has been waived in accordance with the applicable agreement;

(r) Other than as set forth in the Pricing Prospectus, neither the Company nor any of its subsidiaries (i) is in violation of any statute, or any rule, regulation, decision or order of any governmental agency or body or any court relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environmental or human exposure to hazardous or toxic substances (collectively, “environmental laws”), (ii) does not own or operate any real property which to its knowledge is contaminated with any substance that is subject to any environmental laws, (iii) is not to its knowledge liable for any off-site disposal or contamination pursuant to any environmental laws, and (iv) is not subject to any claim relating to any environmental laws and the Company is not aware of any pending investigation which could reasonably be expected to lead to such a claim, which, in the case of (i), (ii), (iii), or (iv), would reasonably be expected to result in a Material Adverse Effect;

(s) The statements set forth in the Pricing Prospectus and the Prospectus under the caption “Description of Common Stock”, insofar as they purport to constitute a summary of the terms of the Securities, and under the caption “Underwriting”, insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate and fairly present the information purported to be given;

(t) The Rights Agreement has been duly authorized, executed and delivered by the Company; when the Rights shall have been issued in accordance with the terms of this Agreement such Rights will constitute legally issued and binding obligations, subject to regulatory approval and other conditions specified in the Rights Agreement;

(u) Other than as set forth in the Pricing Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject, which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(v) The Company is not, and, after giving effect to the offering and sale of the Securities, will not be an "investment company", as such term is defined in the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**");

(w) (i) At the time of filing the Registration Statement, (ii) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus), and (iii) at the time the Company or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c) under the Act) made any offer relating to the Securities in reliance on the exemption of Rule 163 under the Act, the Company was a "well-known seasoned issuer" as defined in Rule 405 under the Act; and (B) at the earliest time after the filing of the Registration Statement that the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the Act) of the Securities, the Company was not an "ineligible issuer" as defined in Rule 405 under the Act.

(x) The Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act;

(y) Deloitte & Touche LLP, who have certified certain financial statements of the Company and its subsidiaries and have audited the Company's internal control over financial reporting and management's assessment thereof, is a registered public accounting firm, and is independent with respect to the Company and its subsidiaries, each within the meaning of the Exchange Act and the rules and regulations of the Commission thereunder and the rules and regulations of the Public Company Accounting Oversight Board;

(z) The Company maintains internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies with the requirements of the Exchange Act and has been designed by the Company's principal executive officer and principal financial officer, or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; the Company's internal control over financial reporting is effective; and the Company is not aware of any material weaknesses in its internal control over financial reporting;

(aa) Since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

(bb) The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that comply with the requirements of the Exchange Act and have been designed to ensure that material information relating to the Company and its subsidiaries is communicated to the Company's principal executive officer and principal financial officer. The Company's disclosure controls and procedures are effective.

2. (a) Subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each of the Underwriters, severally and not jointly, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a price per share set forth in Schedule III, the number of Initial Securities set forth in Schedule I opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof, subject, in each case, to such adjustments among Underwriters as the Representative in its sole discretion shall make to eliminate any sales or purchases of fractional shares.

(b) In addition, subject to the terms and conditions herein set forth, the Company, acting severally and not jointly, hereby grants an option to the Underwriters, severally and not jointly, to purchase up to an additional 412,500 shares of Common Stock, at the price per share set forth in Schedule III, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time only for the purpose of covering overallocments which may be made in connection with the offering and distribution of the Initial Securities upon notice by the Representative to the Company setting forth the number of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (an "**Option Securities Time of Delivery**") shall be determined by the Representative, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Time of Delivery, as hereinafter defined. If the option is exercised as to all or any portion of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Securities then being purchased which the number of Initial Securities set forth in Schedule I opposite the name of such Underwriter bears to the total number of Initial Securities, subject in each case to such adjustments as the Representative in its discretion shall make to eliminate any sales or purchases of fractional shares.

(c) *Payment.* Payment of the purchase price for, and delivery of certificates for, the Securities shall be made at the offices of Dewey Ballantine LLP, counsel for the Company, at 1301 Avenue of the Americas, New York, New York 10019, (the "Closing Location") or at such other place as shall be agreed upon by the

Representative and the Company, at 10:00 A.M. (Eastern time) on the third business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Representative and the Company (such time and date of payment and delivery being herein called “**Time of Delivery**”).

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representative and the Company, on each Option Securities Time of Delivery as specified in the notice from the Representative to the Company.

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company, against delivery to the Representative for the respective accounts of the Underwriters of certificates for the Securities to be purchased by them. It is understood that each Underwriter has authorized the Representative, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it has agreed to purchase. The Representative, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities and the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Time of Delivery, but such payment shall not relieve such Underwriter from its obligations hereunder.

(d) *Denominations; Registration.* Certificates for the Initial Securities and the Option Securities, if any, shall be in such denominations and registered in such names as the Representative may request in writing at least one full business day before the Time of Delivery or the relevant Option Securities Time of Delivery, as the case may be. Subject to the provisions of subsection (e) below, the certificates for the Initial Securities and the Option Securities, if any, will be made available for examination and packaging by the Representative in New York, New York not later than 2:00 P.M. (Eastern time) on the business day prior to the Time of Delivery or the relevant Option Securities Time of Delivery, as the case may be.

(e) *Global Securities.* In lieu of the delivery to the Underwriters of certificates representing the Securities at the Time of Delivery and on each Option Securities Time of Delivery, as contemplated above, the Company, with the approval of the Representative, may deliver one or more global Securities to a custodian (the “**Designated Office**”) for The Depository Trust Company (“**DTC**”), to be held by DTC initially for the accounts of the several Underwriters.

3. Upon the authorization by the Representative of the release of the Securities, the several Underwriters propose to offer the Securities for sale upon the terms and conditions set forth in this Agreement and the Prospectus.

4. The documents to be delivered at the Time of Delivery by or on behalf of the parties hereto pursuant to Section 8 hereof, including the cross receipt for the Securities and any additional documents requested by the Underwriters pursuant to Section 8(k) hereof, will be delivered at the **Closing Location**, and the Securities will be delivered at the Designated Office, all at the Time of Delivery. A meeting will be held at the Closing Location at 2:00 p.m., New York City time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Agreement, "**New York Business Day**" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday, which is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by the Representative and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement; to make no further amendment or any supplement to the Registration Statement, the Basic Prospectus or Prospectus prior to the last Time of Delivery which shall be reasonably disapproved by the Representative promptly after reasonable notice thereof; to advise the Representative, promptly after the Company receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Representative with copies thereof; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required in connection with the offering or sale of the Securities; to advise the Representative, promptly after the Company receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus, the Prospectus or other prospectus in respect of the Securities, of any notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto contemplated by Rule 401(g) (2) under the Act, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus, the Prospectus or other prospectus or suspending any such qualification, promptly to use all commercially reasonable efforts to obtain the withdrawal of such order; and in the event of any such issuance of a notice of objection, promptly to take such steps including, without limitation, amending the Registration Statement or filing a new registration statement, at its own expense, as may be necessary to permit offers and sales of the Securities by the Underwriters (references herein to the Registration Statement shall include any such amendment or new registration statement);

(b) Promptly from time to time to take such action as the Representative may reasonably request to qualify the Securities for offering and sale under the securities laws of such jurisdictions as the Representative may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 a.m., New York City time, on the New York business day succeeding the date of this Agreement, or as soon thereafter as may be reasonably practicable, to furnish the Underwriters with written and electronic copies of the Prospectus in such quantities as the Representative may from time to time reasonably request, and, if the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Securities and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act or the Exchange Act, to notify the Representative and upon their reasonable request to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many written and electronic copies as the Representative may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus (or in lieu thereof, the notice referred to in Rule 173(e) under the Act) in connection with sales of any of the Securities at any time nine months or more after the time of issue of the Prospectus, upon their request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many written and electronic copies as such Underwriter may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Company and its subsidiaries (which need not be audited) covering a period of at least 12 months beginning after the later of (i) the effective date of the most recent post-effective amendment to the Registration Statement to become effective prior to the date of this Agreement and (ii) the date of the Company's most recent Annual Report on Form 10-K filed with the Commission prior to the date of this Agreement, which will satisfy the provisions of Section 11(a) of the Act and the rules and regulations thereunder including Rule 158;

(e) During a period of 90 days from the date of the Prospectus, the Company will not, without the prior written consent of the Representative (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any share of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Registration of the Offer and sale of the Securities as contemplated hereunder and the sale of the Securities to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option, right or warrant or the conversion of a security outstanding on the date hereof and referred to in the Prospectus, (C) any shares of Common Stock issued or options to purchase Common Stock granted pursuant to existing executive compensation plans, employee benefit plans or non-employee director stock plans of the Company referred to in the Prospectus or any renewal or extension of such plan as may be approved by the requisite holders of shares of the Company's Common Stock, or (D) any shares of Common Stock issued pursuant to the Company's dividend reinvestment and direct stock purchase plan;

(f) To use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Pricing Prospectus under the caption "Use of Proceeds";

(g) The Company will use its best efforts to effect the listing of the Securities on the New York Stock Exchange; and

(h) To pay the required Commission filing fees relating to the Securities within the time required by Rule 456(b)(1) under the Act without regard to the proviso therein and otherwise in accordance with rules 456(b) and 457(r) under the Act.

6. (a) (i) The Company represents and agrees that without the prior consent of the Representative, it has not made and will not make any offer relating to the Securities that would constitute a "free writing prospectus" as defined in Rule 405 under the Act;

(ii) each Underwriter represents and agrees that, without the prior consent of the Company and the Representative, other than one or more term sheets relating to the Securities containing customary information that do not require the Company to file any material pursuant to Rule 433(d), it has not made and will not make any offer relating to the Securities that would constitute a free writing prospectus; and

(iii) any such free writing prospectus the use of which has been consented to by the Company or the Representative, as the case may be, is listed on Schedule II (a) hereto;

(b) The Company has complied and will comply with the requirements of Rule 433 under the Act applicable to any Issuer Free Writing Prospectus listed on Schedule II(a) hereto or of which the Company shall have knowledge, including timely filing with the Commission or retention where required and legending; and

(c) The Company agrees that if at any time following the issuance of (i) an Issuer Free Writing Prospectus listed on Schedule II(a) hereto (ii) an Issuer Free Writing Prospectus, the use of which the Company shall have consented or (iii) an Issuer Free Writing Prospectus, the use of which the Representative shall have consented, any event occurred or occurs as a result of which such Issuer Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to the Representative and, if requested by the Representative, will prepare and furnish without charge to each Underwriter an Issuer Free Writing Prospectus or other document which will correct such conflict, statement or omission; *provided, however*, that this covenant shall not apply to any statements or omissions in an Issuer Free Writing Prospectus made in reliance upon and in conformity with information furnished by an Underwriter for use therein.

7. The Company hereby covenants and agrees with the several Underwriters that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Securities under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any preliminary prospectus, the Basic Prospectus, the Pricing Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing this Agreement, any "Blue Sky" survey, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Securities; (iii) any expenses in connection with the qualification of the Securities for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with any "Blue Sky" survey, if any; (iv) the fees and expenses of any transfer agent or registrar for the Securities; (v) any filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Securities; (vi) the cost of preparing the Securities; (vii) the fees and expenses incurred in connection with the listing of the Securities on the New York Stock Exchange; and (viii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section. It is understood, however, that, except as provided in this Section, and Sections 9 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, transfer taxes on resale of any of the Securities by them, and any advertising expenses connected with any offers they may make.

8. The obligations of the Underwriters hereunder shall be subject, in the discretion of the Representative, to the condition that all representations and warranties and other statements of the Company herein are, at and as of the Time of Delivery and at and as of the time of delivery for any Option Securities, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; any material required to be filed by the Company pursuant to Rule 433 (d) under the Act, shall have been filed with the Commission within the applicable time periods prescribed for such filings by Rule 433; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission and no notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act shall have been received; no stop order suspending or preventing the use of the Prospectus or any Issuer Free Writing Prospectus shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to the reasonable satisfaction of the Representative;

(b) There shall have been issued and there shall be in full force and effect, (i) appropriate orders of the WUTC, the IPUC and the OPUC permitting the issuance and sale of the Securities on the terms herein set forth or contemplated, and containing no provision reasonably unacceptable to the Representative, it being understood that no such order in effect on the date of this Agreement contains any such unacceptable provision, and (ii) an appropriate exemptive order of the MPSC;

(c) Latham & Watkins LLP, counsel for the Underwriters, shall have furnished to the Representative such written opinion and a negative assurance letter, dated the Time of Delivery, with respect to the incorporation of the Company, the Securities, the Registration Statement, the Pricing Disclosure Package and the Prospectus, as well as such other related matters as the Representative may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(d) Marian M. Durkin, Esq., Senior Vice President, General Counsel and Chief Compliance Officer of the Company, shall have furnished to the Representative her written opinion or opinions, dated the Time of Delivery, to the effect set forth in Exhibit A hereto;

(e) Dewey Ballantine LLP, counsel to the Company, shall have furnished to the Representative its written opinions, dated the Time of Delivery, to the effect set forth in Exhibit B hereto;

(f) On the date of this Agreement, at or prior to the time of the execution and delivery hereof, and at the Time of Delivery, Deloitte & Touche LLP shall have furnished to the Representative a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to the Representative;

(g) Except as set forth in or contemplated by the Pricing Prospectus, (i) since the respective dates as of which information is given in the Pricing Prospectus and the Prospectus there shall not have been (A) any Material Adverse Change, (B) any transaction entered into by the Company or any subsidiary thereof which is material to the Company and its subsidiaries as a whole other than transactions in the ordinary course of business, or (C) any change in the capital stock or long-term debt of the Company or any of its subsidiaries (except for shares of Common Stock issued under the Company's Dividend-Reinvestment and Stock Purchase Plan, employee benefit plans and director and/or executive compensation plans and except for scheduled maturities of long-term debt) and (ii) neither the Company nor any of its subsidiaries shall have any contingent obligation which is material to the Company and its subsidiaries as a whole, the effect of which, in the case of any such event specified in clauses (i) or (ii) above, is in the judgment of the Representative, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or delivery of the Securities on the terms and in the manner contemplated in this Agreement or in the Prospectus;

(h) On or after the Applicable Time (i) no downgrading shall have occurred in the rating accorded the Company's debt securities or preferred stock by any "nationally recognized statistical rating organization", as such term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities or preferred stock;

(i) On or after the Applicable Time there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities on any securities exchange or in any over-the-counter market; (iii) a general moratorium on commercial banking activities in New York declared by either Federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; or (iv) the outbreak of hostilities or the escalation of existing hostilities involving the United States or the declaration by the United States of a national emergency or war, or the occurrence of any other national or international calamity or crises, including without limitation, acts of terrorism, or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in this clause (iv) in the judgment of the Representative, makes it impracticable or inadvisable to proceed with the public offering or delivery of the Securities on the terms and in the manner contemplated in the Prospectus;

(j) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses;

(k) The Company shall have furnished or caused to be furnished to the Representative at the Time of Delivery certificates of officers of the Company satisfactory to the Representative as to the accuracy of the representations and warranties of the Company herein at and as of the Time of Delivery, as to the performance by the Company of all of its obligations hereunder to be performed at or prior to the Time of Delivery, as to the matters set forth in subsections (a) and (g) of this Section and as to such other matters as the Representative may reasonably request;

(l) At the Time of Delivery, the Securities shall have been approved for listing on the New York Stock Exchange, subject only to official notice of issuance; and

(i) At the Time of Delivery, the Representative shall have received an agreement substantially in the form of Exhibit C hereto signed by the persons listed on Schedule IV hereto.

9. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by the Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; *provided, however*, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representative expressly for use therein;

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary

Prospectus, the Pricing Prospectus, the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative expressly for use therein; and each Underwriter will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred;

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. Notwithstanding the foregoing, in any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The indemnifying party shall not, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party. The indemnified party shall not, without the written consent of the indemnifying party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any such pending or threatened action or claim;

(d) If the indemnification provided for in this Section 9 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof)

referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall, except as limited by subsection (c) above, be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall not be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint; and

(e) The obligations of the Company under this Section 9 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls an Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 9 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Act.

10. (a) If any Underwriter shall default in its obligation to purchase the Securities which it has agreed to purchase hereunder at the Time of Delivery or an Option Securities Time of Delivery, the Representative may in its discretion arrange for itself or another party or other parties to purchase such Securities on the terms contained herein. If within thirty-six hours after such default by any Underwriter the Representative does not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or other parties reasonably satisfactory to the Representative to purchase such Securities on such terms. In the event that, within the respective prescribed periods, the Representative notifies the Company that it have so arranged for the purchase of such Securities, or the Company notifies the Representative that it has so arranged for the purchase of such Securities, the Representative or the Company shall have the right to postpone the Time of Delivery or a Option Securities Time of Delivery, as the case may be, for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which, in the reasonable judgment of the Representative, may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section 10 with like effect as if such person had originally been a party to this Agreement with respect to such Securities;

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representative and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased does not exceed one-tenth of the aggregate principal amount of all the Securities to be purchased at the Time of Delivery or the Option Securities Time of Delivery, as the case may be, then the Company shall have the right to require each non-defaulting Underwriter to purchase the principal amount of Securities which such Underwriter agreed to purchase hereunder at the Time of Delivery or the Option Securities Time of Delivery, as the case may be and, in addition, to require each non-defaulting Underwriter to purchase its *pro rata* share (based on the principal amount of Securities which such Underwriter agreed to purchase hereunder) of the Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default;

(c) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representative and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased exceeds one-tenth of the aggregate principal amount of all the Securities to be purchased at the Time of Delivery or the Option Securities Time of Delivery, as the case may be, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to

purchase Securities of a defaulting Underwriter or Underwriters, then this Agreement shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 7 hereof and the indemnity and contribution agreements in Section 9 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

11. The respective indemnities, agreements, representations, warranties and other statements of the Company and the Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Securities.

12. If this Agreement shall be terminated pursuant to Section 10 hereof, the Company shall not then be under any liability to any Underwriter except as provided in Sections 7 and 9 hereof, but this Agreement is not consummated for any other reason, the Company will reimburse the Underwriters for all out-of-pocket expenses approved in writing by the Representative, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Securities, but the Company shall then be under no further liability to the Underwriter except as provided in Sections 7 and 9 hereof.

13. In all dealings hereunder, the Representative shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement made or given by the Representative purportedly on behalf of any Underwriter.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to the Representative in care of UBS Securities LLC, 299 Park Avenue, New York, New York 10171-0026, Attention: Syndicate Department; and if to the Company shall be delivered or sent by mail to the address of the Company set forth in the Registration Statement, Attention: Treasurer; Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

14. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and, to the extent provided in Sections 9 and 11 hereof, the officers and directors of the Company and each person who controls the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Securities from the Underwriter shall be deemed a successor or assign by reason merely of such purchase.

15. The Company acknowledges and agrees that (i) the purchase and sale of the Securities pursuant to this Agreement is an arm's-length commercial transaction between the Company, on the one hand, and the Underwriters, on the other, (ii) in connection therewith and with the process leading to such transaction each Underwriter is acting solely as a principal and not the agent or fiduciary of the Company, (iii) no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company on other matters) or any other obligation to the Company with respect to the offering contemplated hereby or the process leading thereto except the obligations expressly set forth in this Agreement and (iv) the Company has consulted its own legal and financial advisors to the extent it deemed appropriate. The Company agrees that it will not claim that the Underwriters, or any of them, has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Company, in connection with the offering contemplated hereby or the process leading thereto.

16. Subject to the last paragraph of Section 15 hereof, this Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company and the Underwriters, or any of them, with respect to the subject matter hereof.

17. The Company and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

18. Time shall be of the essence of this Agreement.

19. This Agreement shall be governed by and construed in accordance with the laws of the State of New York and any exercise of remedies under this Agreement shall be governed by the laws of the State of New York, in each case including, without limitation, Section 5-1401 of the New York General Obligation Law.

20. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us 8 counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this Agreement and such acceptance hereof shall constitute a binding agreement between each of the Underwriters and the Company. It is understood that the acceptance by you of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in the Agreement Among Underwriters, a copy of which shall be submitted to the Company for examination, but without warranty on the part of the Representative as to the authority of the signers thereof (other than the Representative).

Very truly yours,

AVISTA CORPORATION

By: /s/ Malyn K. Malquist
Name: Malyn K. Malquist
Title: Executive Vice President and Chief Financial Officer

Accepted as of the date hereof:

UBS SECURITIES LLC

By: /s/ James Schaefer
Name: James Schaefer
Title: Managing Director

By: /s/ Jonathan Schudmak
Name: Jonathan Schudmak
Title: Associate Director

On behalf of each of the Underwriters

Schedule I

Underwriter

UBS Securities LLC.

Total

Number of Initial

Securities

2,750,000

2,750,000

Schedule II

(a) Issuer Free Writing Prospectuses not included in the Pricing Disclosure Package:

None

(b) Additional Documents Incorporated by Reference:

None

Schedule III

AVISTA CORPORATION

2,750,000 Shares of Common Stock

The purchase price per share for the Securities to be paid by the several Underwriters shall be \$25.05.

Schedule IV**List of Persons Subject to Lock-Up**

Name	Title
Gary G. Ely	Chairman of the Board and President
Marian M. Durkin	Senior Vice President, General Counsel and Chief Compliance Officer
Karen S. Feltes	Senior Vice President of Human Resource and Corporate Secretary
Malyn K. Malquist	Executive Vice President and Chief Financial Officer
Scott L. Morris	President and Chief Operating Officer
Christy M. Burmeister-Smith	Vice President and Treasurer
Don F. Kopczynski	Vice President
David J. Meyer	Vice President and Chief Counsel of Regulatory and Governmental Affairs
Kelly O. Norwood	Vice President
Ronald R. Petersen	Vice President
Ann M. Wilson	Vice President and Controller
Roger D. Woodworth	Vice President
Erik J. Anderson	Director
Kritianne Blake	Director
Roy Lewis Eiguren	Director
Jack W. Gustavel	Director
John F. Kelley	Director
Michael L. Noël	Director
Lura J. Powell, Ph.D.	Director
Heidi B. Stanley	Director
R. John Taylor	Director

AVISTA CORPORATION

First Mortgage Bonds, 5.70% Series due 2037

Underwriting Agreement

December 12, 2006

Goldman, Sachs & Co.,

As Representative of the several Underwriters

Named in Schedule I hereto,

85 Broad Street

New York, New York 10004

Ladies and Gentlemen:

Avista Corporation, a Washington corporation (the “**Company**”), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (collectively, the “**Underwriters**”) for whom you are acting as representative (in such capacity the “**Representative**”) an aggregate of \$150,000,000 principal amount of its First Mortgage Bonds, 5.70% Series due 2037 (the “**Securities**”). The Securities are to be issued as a series of bonds under the Mortgage and Deed of Trust, dated as of June 1, 1939, between the Company and Citibank, N.A., as trustee (the “**Trustee**”), as amended and supplemented by various supplemental indentures including the Forty-first Supplemental Indenture, dated as of December 1, 2006. Such Mortgage and Deed of Trust, as so amended and supplemented, and such Forty-first Supplemental Indenture are hereinafter called, respectively, the “**Mortgage**” and the “**Supplemental Indenture**”.

1. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) An “automatic shelf registration statement” as defined under Rule 405 under the Securities Act of 1933, as amended (the “**Act**”) on Form S-3 (File No. 333-139239) in respect of the Securities has been filed with the Securities and Exchange Commission (the “**Commission**”) not earlier than three years prior to the date hereof; such registration statement, and any post-effective amendment thereto, became effective on filing; and no stop order suspending the effectiveness of such registration statement or any part thereof has been issued and no proceeding for that purpose has been initiated or, to the best knowledge of the Company, threatened by the Commission, and no notice of objection of the Commission to the use of such registration statement or any part thereof or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act has been received by the Company; in this agreement,

(i) the base prospectus filed as part of such registration statement, in the form in which it has most recently been filed with the Commission on or prior to the date of this Agreement, is called the “**Basic Prospectus**”;

(ii) any preliminary prospectus (including any preliminary prospectus supplement) relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act is called a “**Preliminary Prospectus**”;

(iii) such registration statement, as deemed revised pursuant to Rule 430B(f)(1) under the Act on the effective date of such registration statement for purposes of Section 11 of the Act (as such section applies to the Company and the Underwriters for the Securities pursuant to Rule 430B(f)(2) under the Act (the “**Effective Date**”)), including the exhibits thereto and all documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act at the Effective Date but excluding the Statement of Eligibility on Form T-1, is called the “**Registration Statement**”;

(iv) the Basic Prospectus, as amended and supplemented immediately prior to the Applicable Time (as defined in Section 1(c) hereof), is called the “**Pricing Prospectus**”;

(v) the form of the final prospectus relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof is called the “**Prospectus**”;

(vi) any reference to the Basic Prospectus, the Pricing Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act, as of the date of such prospectus;

(vii) any reference to any amendment or supplement to the Basic Prospectus, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the form of prospectus contained in any post-effective amendment to the Registration Statement, any prospectus supplement relating to the Securities filed with the Commission pursuant to Rule 424(b) under the Act and any documents filed under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and incorporated therein, in each case after the date of the Basic Prospectus, such Preliminary Prospectus, or the Prospectus, as the case may be;

(viii) any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the effective date of the Registration Statement that is incorporated by reference in the Registration Statement; and

(ix) any “issuer free writing prospectus” as defined in Rule 433 under the Act relating to the Securities (including the final term sheet prepared and filed pursuant to Section 5(a)) is called an “**Issuer Free Writing Prospectus**”;

(b) No order preventing or suspending the use of any Preliminary Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission;

(c) the Pricing Prospectus, at the time of filing thereof with the Commission, conformed in all material respects to the requirements of the Act and the Trust Indenture Act of 1939, as amended (the “**Trust Indenture Act**”) and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein or (B) any information set forth in the Pricing Prospectus (i) under the caption “The Insurer” or (ii) in Exhibit A thereto;

(d) For the purposes of this Agreement, the “Applicable Time” is 3:35 p.m. (Eastern time) on the date of this Agreement; the Pricing Prospectus, as supplemented by the final term sheet prepared and filed pursuant to Section 5(a) hereof (together the “**Pricing Disclosure Package**”), as of the Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein or (B) any information set forth in the Pricing Prospectus (i) under the caption “The Insurer” or (ii) in Exhibit A thereto; no Issuer Free Writing Prospectus listed on Schedule II(a) hereto conflicted or will conflict with the information contained in the Registration Statement, the Pricing Prospectus or the Prospectus; and no such Issuer Free Writing Prospectus, considered together with the Pricing Disclosure Package as of the Applicable Time, included any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to statements or omissions made in an Issuer Free Writing Prospectus in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein;

(e) The documents incorporated by reference in the Pricing Prospectus and the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act

or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein; and no such documents were filed with the Commission since the Commission's close of business on the business day immediately prior to the date of this Agreement and prior to the time of the execution and delivery of this Agreement, except as set forth on Schedule II (b) hereto;

(f) The Registration Statement conforms, and any further amendments or supplements to the Registration Statement will conform, in all material respects to the requirements of the Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and do not and will not, as of the Effective Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; *provided, however*, that this representation and warranty shall not apply to (A) any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein or (B) any information set forth in the Registration Statement (i) under the caption "The Insurer" or (ii) in Exhibit A thereto;

(g) The Prospectus and any amendments or supplements thereto, when filed with the Commission, will conform in all material respects to the requirements of the Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder, and the Prospectus and any amendments and supplements thereto, when they are filed with the Commission and at the Time of Delivery (as defined below), will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; *provided, however*, that this representation and warranty shall not apply to any (A) statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through the Representative expressly for use therein or (B) any information set forth in the Prospectus (i) under the caption "The Insurer" or (ii) in Exhibit A thereto;

(h) Except as set forth in or contemplated by the Pricing Prospectus, (i) since the respective dates as of which information is given in the Registration Statement and the Pricing Prospectus, there has not been (A) any material adverse change in or affecting the business, financial condition, shareholders' equity or results of operations of the Company and its subsidiaries, considered as a whole, or any development reasonably expected to result in such a material adverse change (in each case, a "**Material Adverse Change**"), (B) any transaction entered into by the Company or any subsidiary thereof which is material to the Company and its subsidiaries as a whole other than transactions in the ordinary course of business, and (C) any change in the capital stock or long-term debt of the Company or any of its subsidiaries (except for

shares of common stock issued under the Company's Dividend-Reinvestment and Stock Purchase Plan and employee benefit plans and director and/or executive compensation plans and except for scheduled maturities of long-term debt) and (ii) neither the Company nor any of its subsidiaries has any contingent obligation which is material to the Company and its subsidiaries as a whole;

(i) The Company has been duly incorporated and is validly existing in good standing as a corporation under the laws of the State of Washington, is duly qualified to do business and in good standing as a foreign corporation under the laws of the States of Idaho, Montana and Oregon, and has corporate and other power and authority and has all material required approvals and authorizations to own, lease and operate its properties, and to transact an electric and/or gas public utility business in such jurisdictions;

(j) The Company has an authorized capitalization as set forth in the Pricing Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable;

(k) Each of Avista Capital, Inc. ("**Avista Capital**"), Avista Energy, Inc. ("**Avista Energy**") and Advantage IQ, Inc. ("**Advantage IQ**") is duly incorporated and validly existing in good standing under the laws of the State of Washington and has corporate and other power and authority and has all material required approvals and authorizations to own, lease and operate its properties, and to transact its business;

(l) All of the issued shares of capital stock of Avista Capital, Avista Energy and Advantage IQ have been duly and validly authorized and issued, are fully paid and non-assessable; 1,715,000 shares of Avista Capital's capital stock are issued and outstanding and the Company is the record and beneficial owner of all shares of such capital stock; 11,822,899 shares of Avista Energy's capital stock are issued and outstanding and Avista Capital is the record and beneficial owner of 11,801,728 shares of such capital stock; and 29,591,434 shares of Advantage IQ's capital stock are issued and outstanding (which consist of (i) 2,031,814 shares of non-voting preferred stock and (ii) 27,559,620 shares of common stock) and Avista Capital is the record and beneficial owner of 1,849,698 shares of such preferred stock and 27,540,570 shares of such common stock; and the shares of capital stock of Avista Capital, Avista Energy and Advantage IQ that are owned directly or indirectly by the Company are owned free and clear of all security interests, liens, encumbrances, equities and claims;

(m) The Securities have been duly authorized by all necessary corporate action on the part of the Company, and have been duly executed by the Company and, when duly authenticated and delivered by the Trustee under the Mortgage, and issued, delivered and paid for in accordance with this Agreement, will be duly issued and delivered by the Company and will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to (i) bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws of general applicability relating to or affecting creditors' rights and (ii) general principles of equity, whether such enforceability is considered a proceeding in

equity or at law, and by rules of law governing specific performance, injunction relief, foreclosure, receivership and other equitable remedies (the exceptions referred to in clauses (i) and (ii) being hereinafter called, collectively, the “**Exceptions**”), and are entitled to the benefits provided by the Mortgage; the Securities will be substantially in the form previously delivered to the Representative; and the Securities will conform in all material respects to the description thereof contained in the Pricing Disclosure Package and the Prospectus;

(n) The Mortgage has been duly authorized and the Mortgage (excluding the Supplemental Indenture) has been duly executed and delivered; when the Supplemental Indenture is duly executed, delivered and appropriately recorded, the Mortgage will constitute a valid and legally binding instrument, enforceable in accordance with its terms, subject to the Exceptions and except, further, to the extent that the law of the states in which the mortgaged property is located may limit or deny certain remedies provided for in the Mortgage; the Mortgage has been duly qualified under the Trust Indenture Act; and the Mortgage will conform in all material respects to the description thereof contained in the Pricing Disclosure Package and the Prospectus;

(o) The Company has good and marketable title in fee simple to all of its real estate and fixed properties and good title to all of its other property, subject only (i) to the lien of the Mortgage, (ii) to leases of minor portions of the Company’s property to others for uses which do not interfere with the Company’s business; (iii) to leases of certain property of the Company not used in its utility business, (iv) to Excepted Encumbrances (as defined in the Mortgage) and (v) to encumbrances, defects and irregularities customarily found in properties of like size and character, which, in the Company’s opinion, do not materially impair the use of the property affected thereby in the operation of the business of the Company; upon the due execution, delivery and appropriate recording of the Supplemental Indenture, the Mortgage will constitute, subject only to the exceptions enumerated immediately above, a valid first mortgage lien for the security of the Securities and all other bonds issued and presently outstanding thereunder on such properties, which include substantially all of the physical properties and franchises of the Company other than those expressly excepted;

(p) The description in the Mortgage of the properties intended to be subject to the Mortgage is adequate to constitute a lien thereon; and the Mortgage (excluding the Supplemental Indenture) has been duly and properly recorded in the proper offices of the respective counties in which the real estate and other physical properties of the Company are located, and the Supplemental Indenture will be so recorded forthwith, and no other recording or filing of the Mortgage is or will be necessary to maintain or perfect of record the lien thereof;

(q) The issue and sale of the Securities and the compliance by the Company with all of the provisions of the Securities, the Mortgage and this Agreement and the consummation by the Company of the transactions herein and therein contemplated will not (i) violate the Company’s Restated Articles of Incorporation, as amended, or By-laws or (ii) result in a breach or violation of any of the terms or provisions of, or constitute a default under, (A) any statute or, to the knowledge of the

Company, any order, rule or regulation of any court or any federal or state regulatory authority or other governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties, or (B) any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, which breach, violation or default referred to in this clause (ii) would individually, or in the aggregate, have, or would be reasonably expected to have, a material adverse effect on the business, financial condition, shareholders' equity or results of operations of the Company and its subsidiaries considered as a whole (in each case, a "**Material Adverse Effect**");

(r) No consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties is required for the issue and sale of the Securities or the consummation by the Company of the transactions contemplated by this Agreement or the Mortgage, except the registration under the Act of the Securities and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Securities by the Underwriters, and such consents, approvals, authorizations, filings or registrations as may be required by the Washington Utilities and Transportation Commission (the "**WUTC**"), the Idaho Public Utilities Commission (the "**IPUC**") and the Public Utility Commission of Oregon (the "**OPUC**");

(s) None of the Company, Avista Capital, Avista Energy and Advantage IQ is (i) currently in violation of its Restated Articles of Incorporation or By-laws or, (ii) except as set forth in the Pricing Prospectus, in default in the performance or observance of any obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound which default, in the case of clause (ii) would have, or would be reasonably expected to have, a Material Adverse Effect, except for any such default in the performance or observance of any such obligation, agreement, covenant or condition that has been waived in accordance with the applicable agreement;

(t) Other than as set forth in the Pricing Prospectus, neither the Company nor any of its subsidiaries (i) is in violation of any statute, or any rule, regulation, decision or order of any governmental agency or body or any court relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environmental or human exposure to hazardous or toxic substances (collectively, "**environmental laws**"), (ii) does not own or operate any real property which to its knowledge is contaminated with any substance that is subject to any environmental laws, (iii) is not to its knowledge liable for any off-site disposal or contamination pursuant to any environmental laws, and (iv) is not subject to any claim relating to any environmental laws and the Company is not aware of any pending investigation which could reasonably be expected to lead to such a claim, which, in the case of (i), (ii), (iii), or (iv), would reasonably be expected to result in a Material Adverse Effect;

(u) The statements set forth in the Pricing Prospectus and the Prospectus under the captions “Description of the Offered Bonds” and “Description of the Bonds”, insofar as they purport to constitute a summary of the terms of the Securities, and under the caption “Underwriting”, insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate and fairly present the information purported to be given;

(v) Other than as set forth in the Pricing Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject, which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a Material Adverse Effect; and, to the best of the Company’s knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(w) The Company is not, and, after giving effect to the offering and sale of the Securities, will not be an “investment company”, as such term is defined in the United States Investment Company Act of 1940, as amended (the “**Investment Company Act**”);

(x) (i) At the time of filing the Registration Statement, (ii) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus), and (iii) at the time the Company or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c) under the Act) made any offer relating to the Securities in reliance on the exemption of Rule 163 under the Act, the Company was a “well-known seasoned issuer” as defined in Rule 405 under the Act; and (B) at the earliest time after the filing of the Registration Statement that the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the Act) of the Securities, the Company was not an “ineligible issuer” as defined in Rule 405 under the Act.

(y) The Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act;

(z) Deloitte & Touche LLP, who have certified certain financial statements of the Company and its subsidiaries and have audited the Company’s internal control over financial reporting and management’s assessment thereof, is a registered public accounting firm, and is independent with respect to the Company and its subsidiaries, each within the meaning of the Exchange Act and the rules and regulations of the Commission thereunder and the rules and regulations of the Public Company Accounting Oversight Board;

(aa) The Company maintains internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies with the requirements of the Exchange Act and has been designed by the Company's principal executive officer and principal financial officer, or under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; the Company's internal control over financial reporting is effective; and the Company is not aware of any material weaknesses in its internal control over financial reporting;

(bb) Since the date of the latest audited financial statements included or incorporated by reference in the Pricing Prospectus, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

(cc) The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that comply with the requirements of the Exchange Act and have been designed to ensure that material information relating to the Company and its subsidiaries is communicated to the Company's principal executive officer and principal financial officer. The Company's disclosure controls and procedures are effective.

2. Subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each of the Underwriters, severally and not jointly, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price of 98.977% of the principal amount thereof, plus accrued interest, if any, from December 15, 2006 to the Time of Delivery hereunder, the principal amount of Securities set forth opposite the name of such Underwriter in Schedule I hereto.

3. Upon the authorization by the Representative of the release of the Securities, the several Underwriters propose to offer the Securities for sale upon the terms and conditions set forth in this Agreement and the Prospectus.

4. (a) The Securities to be purchased by each Underwriter hereunder will be represented by one or more definitive global Securities in book-entry form to be deposited with The Depository Trust Company ("**DTC**") or its designated custodian. The Company will deliver the global Securities to DTC or such custodian to be credited to the account of the Representative, for the account of each Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by wire transfer of Federal (same day) funds to the account specified by the Company to the Representative, by causing DTC to credit the Securities to the account of the Representative at DTC. The Company will cause the certificates representing the Securities to be made available to the Representative for checking at least twenty-four hours prior to the Time of Delivery (as defined below) at the office of DTC or its designated custodian (the "**Designated Office**"). The time and date of such delivery and payment shall be 10:00 a.m., New York City time, on December 15, 2006 or such other time and date as the Representative and the Company may agree upon in writing. Such time and date are herein called the "**Time of Delivery**"; and

(b) The documents to be delivered at the Time of Delivery by or on behalf of the parties hereto pursuant to Section 8 hereof, including the cross receipt for the Securities and any additional documents requested by the Underwriters pursuant to Section 8(k) hereof, will be delivered at the offices of Dewey Ballantine LLP, 1301 Avenue of the Americas, New York, New York 10019 (the “**Closing Location**”), and the Securities will be delivered at the Designated Office, all at the Time of Delivery. A meeting will be held at the Closing Location at 2:00 p.m., New York City time, on the New York Business Day next preceding such Time of Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Agreement, “**New York Business Day**” shall mean each Monday, Tuesday, Wednesday, Thursday and Friday, which is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by the Representative and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission’s close of business on the second business day following the execution and delivery of this Agreement; to make no further amendment or any supplement to the Registration Statement, the Basic Prospectus or Prospectus prior to the last Time of Delivery which shall be reasonably disapproved by the Representative promptly after reasonable notice thereof; to advise the Representative, promptly after the Company receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Representative with copies thereof; to prepare a final term sheet, containing solely the terms of the Securities (to the extent not contained in the Pricing Prospectus) and the terms of the offering thereof, in a form attached as Schedule III hereto, and to file such term sheet pursuant to Rule 433(d) under the Act within the time required by such Rule; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required in connection with the offering or sale of the Securities; to advise the Representative, promptly after the Company receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus, the Prospectus or other prospectus in respect of the Securities, of any notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto contemplated by Rule 401(g) (2) under the Act, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop

order or of any order preventing or suspending the use of any Preliminary Prospectus, the Prospectus or other prospectus or suspending any such qualification, promptly to use all commercially reasonable efforts to obtain the withdrawal of such order; and in the event of any such issuance of a notice of objection, promptly to take such steps including, without limitation, amending the Registration Statement or filing a new registration statement, at its own expense, as may be necessary to permit offers and sales of the Securities by the Underwriters (references herein to the Registration Statement shall include any such amendment or new registration statement);

(b) Promptly from time to time to take such action as the Representative may reasonably request to qualify the Securities for offering and sale under the securities laws of such jurisdictions as the Representative may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 a.m., New York City time, on the New York business day succeeding the date of this Agreement, or as soon thereafter as may be reasonably practicable, to furnish the Underwriters with written and electronic copies of the Prospectus in such quantities as the Representative may from time to time reasonably request, and, if the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Securities and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Act) is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act, the Exchange Act or the Trust Indenture Act, to notify the Representative and upon their reasonable request to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many written and electronic copies as the Representative may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus (or in lieu thereof, the notice referred to in Rule 173(e) under the Act) in connection with sales of any of the Securities at any time nine months or more after the time of issue of the Prospectus, upon their request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many written and electronic copies as such Underwriter may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Company and its subsidiaries (which need not be audited) covering a period of at least 12 months beginning after the later of (i) the effective date of the most recent post-effective amendment to the Registration Statement to become effective prior to the date of this Agreement and (ii) the date of the Company's most recent Annual Report on Form 10-K filed with the Commission prior to the date of this Agreement, which will satisfy the provisions of Section 11(a) of the Act and the rules and regulations thereunder including Rule 158;

(e) During the period beginning from the date hereof and continuing to and including the later of (i) the completion of the distribution of the Securities, as shall be promptly notified to the Company by the Representative upon such completion, but in no event shall such period exceed 90 days from the Time of Delivery, and (ii) the Time of Delivery, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder, any debt securities of the Company that are substantially similar to the Securities, without the prior written consent of the Representative (it being understood that this paragraph shall not prohibit the issuance of commercial paper or other debt securities with scheduled maturities of less than one year, debt securities issued in connection with any credit facility, or debt securities issued as collateral for other obligations); and

(f) To use the net proceeds received by it from the sale of the Securities pursuant to this Agreement in the manner specified in the Pricing Prospectus under the caption "Use of Proceeds";

(g) To pay the required Commission filing fees relating to the Securities within the time required by Rule 456(b)(1) under the Act without regard to the proviso therein and otherwise in accordance with rules 456(b) and 457(r) under the Act; and

(h) To obtain an endorsement to the policy of title insurance updating the description of the property covered thereby, which complies with all applicable laws and regulations, naming the Trustee (on behalf of the holders of all securities issued and outstanding under the Mortgage) as the insured (without a co-insurance exception), and in an amount not less than \$635,000,000, covering all real estate and improvements affixed thereto that are subject to the lien created by the Mortgage.

6. (a)(i) The Company represents and agrees that, other than the final term sheet prepared and filed pursuant to Section 5(a) hereof, without the prior consent of the Representative, it has not made and will not make any offer relating to the Securities that would constitute a "free writing prospectus" as defined in Rule 405 under the Act;

(ii) each Underwriter represents and agrees that, without the prior consent of the Company and the Representative, other than one or more term sheets relating to the Securities containing customary information that do not require the Company to file any material pursuant to Rule 433(d) except for the final term sheet prepared and filed pursuant to Section 5(a) hereof, it has not made and will not make any offer relating to the Securities that would constitute a free writing prospectus; and

(iii) any such free writing prospectus the use of which has been consented to by the Company or the Representative, as the case may be, is listed on Schedule II (a) hereto;

(b) The Company has complied and will comply with the requirements of Rule 433 under the Act applicable to any Issuer Free Writing Prospectus listed on Schedule II(a) hereto or of which the Company shall have knowledge, including timely filing with the Commission or retention where required and legending; and

(c) The Company agrees that if at any time following the issuance of an Issuer Free Writing Prospectus listed on Schedule II(a) hereto any event occurred or occurs as a result of which such Issuer Free Writing Prospectus would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances then prevailing, not misleading, the Company will give prompt notice thereof to the Representative and, if requested by the Representative, will prepare and furnish without charge to each Underwriter an Issuer Free Writing Prospectus or other document which will correct such conflict, statement or omission; *provided, however*, that this covenant shall not apply to any statements or omissions in an Issuer Free Writing Prospectus made in reliance upon and in conformity with information furnished by an Underwriter for use therein.

7. The Company hereby covenants and agrees with the several Underwriters that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Securities under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any preliminary prospectus, the Basic Prospectus, the Pricing Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing this Agreement, any supplemental indenture under the Mortgage, any "Blue Sky" survey, closing documents (including any compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Securities; (iii) any expenses in connection with the qualification of the Securities for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with any "Blue Sky" survey, if any; (iv) any fees charged by securities rating services for rating the Securities; (v) any filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Securities; (vi) the cost of preparing the Securities; (vii) the fees and expenses of the Trustee and any agent of the Trustee and the fees and

disbursements of counsel for the Trustee in connection with any supplemental indenture under the Mortgage and the Securities; (viii) the premium with respect to, and any other fees and expenses in connection with the financial guaranty insurance policy; and (ix) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section. It is understood, however, that, except as provided in this Section, and Sections 9 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, transfer taxes on resale of any of the Securities by them, and any advertising expenses connected with any offers they may make.

8. The obligations of the Underwriters hereunder shall be subject, in the discretion of the Representative, to the condition that all representations and warranties and other statements of the Company herein are, at and as of the Time of Delivery, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) under the Act within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; the final term sheet contemplated by the Section 5(a) hereof, and any other material required to be filed by the Company pursuant to Rule 433 (d) under the Act, shall have been filed with the Commission within the applicable time periods prescribed for such filings by Rule 433; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission and no notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Act shall have been received; no stop order suspending or preventing the use of the Prospectus or any Issuer Free Writing Prospectus shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to the reasonable satisfaction of the Representative;

(b) There shall have been issued and there shall be in full force and effect, (i) appropriate orders of the WUTC, the IPUC and the OPUC permitting the issuance and sale of the Securities on the terms herein set forth or contemplated, and containing no provision reasonably unacceptable to the Representative, it being understood that no such order in effect on the date of this Agreement contains any such unacceptable provision, and (ii) an appropriate exemptive order of the MPSC;

(c) Latham & Watkins LLP, counsel for the Underwriters, shall have furnished to the Representative such written opinion and a negative assurance letter, dated the Time of Delivery, with respect to the incorporation of the Company, the Mortgage, the Securities, the Registration Statement, the Pricing Disclosure Package and the Prospectus, as well as such other related matters as the Representative may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(d) Marian M. Durkin, Esq., Senior Vice President, General Counsel and Chief Compliance Officer of the Company, shall have furnished to the Representative her written opinion or opinions, dated the Time of Delivery, to the effect set forth in Exhibit A hereto;

(e) Dewey Ballantine LLP, counsel to the Company, shall have furnished to the Representative its written opinions, dated the Time of Delivery, to the effect set forth in Exhibit B hereto;

(f) On the date of this Agreement, at or prior to the time of the execution and delivery hereof, and at the Time of Delivery, Deloitte & Touche LLP shall have furnished to the Representative a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to the Representative;

(g) Except as set forth in or contemplated by the Pricing Prospectus and the Prospectus, (i) since the respective dates as of which information is given in the Pricing Prospectus and the Prospectus there shall not have been (A) any Material Adverse Change, (B) any transaction entered into by the Company or any subsidiary thereof which is material to the Company and its subsidiaries as a whole other than transactions in the ordinary course of business, or (C) any change in the capital stock or long-term debt of the Company or any of its subsidiaries (except for shares of Common Stock issued under the Company's Dividend-Reinvestment and Stock Purchase Plan, employee benefit plans and director and/or executive compensation plans and except for scheduled maturities of long-term debt) and (ii) neither the Company nor any of its subsidiaries shall have any contingent obligation which is material to the Company and its subsidiaries as a whole, the effect of which, in the case of any such event specified in clauses (i) or (ii) above, is in the judgment of the Representative, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or delivery of the Securities on the terms and in the manner contemplated in this Agreement or in the Prospectus;

(h) On or after the Applicable Time (i) no downgrading shall have occurred in the rating accorded the Company's debt securities or preferred stock by any "nationally recognized statistical rating organization", as such term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities or preferred stock;

(i) On or after the Applicable Time there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange; (ii) a suspension or material limitation in trading in the Company's securities on any securities exchange or in any over-the-counter market; (iii) a general moratorium on commercial banking activities in New York declared by either Federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; or (iv) the outbreak of hostilities or the escalation of existing hostilities involving the United States

or the declaration by the United States of a national emergency or war, or the occurrence of any other national or international calamity or crises, including without limitation, acts of terrorism, or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in this clause (iv) in the judgment of the Representative, makes it impracticable or inadvisable to proceed with the public offering or delivery of the Securities on the terms and in the manner contemplated in the Prospectus;

(j) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses;

(k) The Company shall have furnished or caused to be furnished to the Representative at the Time of Delivery certificates of officers of the Company satisfactory to the Representative as to the accuracy of the representations and warranties of the Company herein at and as of the Time of Delivery, as to the performance by the Company of all of its obligations hereunder to be performed at or prior to the Time of Delivery, as to the matters set forth in subsections (a) and (g) of this Section and as to such other matters as the Representative may reasonably request; and

(l) At the Time of Delivery, a financial guaranty insurance policy in substantially the form attached as Exhibit A to the Pricing Prospectus shall have been duly authorized, executed and delivered by XL Capital Assurance Inc. to the Trustee and shall be in full force and effect and the Representative shall have received an opinion of counsel for XL Capital Assurance Inc., dated the Time of Delivery, covering such matters as the Underwriters or counsel for the Underwriters may reasonably require.

9. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any amendment or supplement thereto or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by the Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; *provided, however*, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representative expressly for use therein;

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus, the Pricing Prospectus, the Prospectus, or any such amendment or supplement thereto, or any Issuer Free Writing Prospectus, in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative expressly for use therein; and each Underwriter will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred;

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. Notwithstanding the foregoing, in any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. The indemnifying party shall not, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or

claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party. The indemnified party shall not, without the written consent of the indemnifying party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any such pending or threatened action or claim;

(d) If the indemnification provided for in this Section 9 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall, except as limited by subsection (c) above, be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall not be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No

person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint; and

(e) The obligations of the Company under this Section 9 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls an Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 9 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Act.

10. (a) If any Underwriter shall default in its obligation to purchase the Securities which it has agreed to purchase hereunder at a Time of Delivery, the Representative may in its discretion arrange for itself or another party or other parties to purchase such Securities on the terms contained herein. If within thirty-six hours after such default by any Underwriter the Representative does not arrange for the purchase of such Securities, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or other parties reasonably satisfactory to the Representative to purchase such Securities on such terms. In the event that, within the respective prescribed periods, the Representative notifies the Company that it has so arranged for the purchase of such Securities, or the Company notifies the Representative that it has so arranged for the purchase of such Securities, the Representative or the Company shall have the right to postpone the Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which, in the reasonable judgment of the Representative, may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section 10 with like effect as if such person had originally been a party to this Agreement with respect to such Securities;

(b) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representative and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased does not exceed one-tenth of the aggregate principal amount of all the Securities to be purchased at the Time of Delivery, then the Company shall have the right to require each non-defaulting Underwriter to purchase the principal amount of Securities which such Underwriter agreed to purchase hereunder at the Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its *pro rata* share (based on the principal amount of Securities which such Underwriter agreed to purchase hereunder) of the Securities of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default;

(c) If, after giving effect to any arrangements for the purchase of the Securities of a defaulting Underwriter or Underwriters by the Representative and the Company as provided in subsection (a) above, the aggregate principal amount of such Securities which remains unpurchased exceeds one-tenth of the aggregate principal amount of all the Securities to be purchased at the Time of Delivery, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Securities of a defaulting Underwriter or Underwriters, then this Agreement shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 7 hereof and the indemnity and contribution agreements in Section 9 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

11. The respective indemnities, agreements, representations, warranties and other statements of the Company and the Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Securities.

12. If this Agreement shall be terminated pursuant to Section 10 hereof, the Company shall not then be under any liability to any Underwriter except as provided in Sections 7 and 9 hereof, but this Agreement is not consummated for any other reason, the Company will reimburse the Underwriters for all out-of-pocket expenses approved in writing by the Representative, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Securities, but the Company shall then be under no further liability to the Underwriter except as provided in Sections 7 and 9 hereof.

13. In all dealings hereunder, the Representative shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement made or given by the Representative purportedly on behalf of any Underwriter.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to the Representative in care of Goldman, Sachs & Co., One New York Plaza, 42nd Floor, New York, NY 10004, Attention: Registration Department; and if to the Company shall be delivered or sent by mail to the address of the Company set forth in the Registration Statement, Attention: Treasurer; Any such statements, requests, notices or agreements shall take effect upon receipt thereof.

14. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and, to the extent provided in Sections 9 and 11 hereof, the officers and directors of the Company and each person who controls the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Securities from the Underwriter shall be deemed a successor or assign by reason merely of such purchase.

15. The Company acknowledges and agrees that (i) the purchase and sale of the Securities pursuant to this Agreement is an arm's-length commercial transaction between the Company, on the one hand, and the Underwriters, on the other, (ii) in connection therewith and with the process leading to such transaction each Underwriter is acting solely as a principal and not the agent or fiduciary of the Company, (iii) no Underwriter has assumed an advisory or fiduciary responsibility in favor of the Company with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company on other matters) or any other obligation to the Company with respect to the offering contemplated hereby or the process leading thereto except the obligations expressly set forth in this Agreement and (iv) the Company has consulted its own legal and financial advisors to the extent it deemed appropriate. The Company agrees that it will not claim that the Underwriters, or any of them, has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Company, in connection with the offering contemplated hereby or the process leading thereto.

Each of the Company and Goldman, Sachs & Co. hereby (a) acknowledges the letter agreement between them, dated March 21, 2006 and (b) agrees that the rights and obligations thereunder shall not be limited or otherwise affected by the preceding paragraph.

16. Subject to the last paragraph of Section 15 hereof, this Agreement supersedes all prior agreements and understandings (whether written or oral) between the Company and the Underwriters, or any of them, with respect to the subject matter hereof.

17. The Company and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

18. Time shall be of the essence of this Agreement.

19. This Agreement shall be governed by and construed in accordance with the laws of the State of New York and any exercise of remedies under this Agreement shall be governed by the laws of the State of New York, in each case including, without limitation, Section 5-1401 of the New York General Obligation Law.

20. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us 8 counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this Agreement and such acceptance hereof shall constitute a binding agreement between each of the Underwriters and the Company. It is understood that the acceptance by you of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in the Agreement Among Underwriters, a copy of which shall be submitted to the Company for examination, but without warranty on the part of the Representative as to the authority of the signers thereof (other than the Representative).

Very truly yours,

AVISTA CORPORATION

By: /s/ Malyn K. Malquist

Name: Malyn K. Malquist

Title: Executive Vice President and Chief Financial Officer

Accepted as of the date hereof:

GOLDMAN, SACHS & CO.

/s/ Goldman, Sachs & Co.

(Goldman, Sachs & Co.)

On behalf of each of the Underwriters

Schedule I

Underwriter	Principal Amount of Securities to be Purchased
Goldman, Sachs & Co.	\$ 90,000,000
BNY Capital Markets, Inc.	22,500,000
KeyBanc Capital Markets, a Division of McDonald Investments Inc.	22,500,000
A.G. Edwards & Sons, Inc.	7,500,000
Banc of America Securities LLC.	7,500,000
Total	\$ 150,000,000

Schedule II

(a) Issuer Free Writing Prospectuses not included in the Pricing Disclosure Package:

None

(b) Additional Documents Incorporated by Reference:

Form 8-K of Avista Corporation, dated December 12, 2006, relating to Items 8.01 and 9.01

Schedule III

Filed Pursuant to Rule 433
Registration No. 333-139239

Final Term Sheet

Issuer:	Avista Corporation
Issue:	First Mortgage Bonds, 5.70% Series due 2037
Ratings:	Aaa/AAA/AAA
Insurer:	XL Capital Assurance
Offering Size:	\$150,000,000
Coupon:	5.70%
Trade Date:	December 12, 2006
Settlement Date:	December 15, 2006 (T+3)
Stated Maturity:	July 1, 2037
Spread to Benchmark Treasury:	T+110
Yield to Maturity:	5.71%
Benchmark Treasury Yield:	4.61%
Benchmark Treasury:	4.50% due February 2, 2036
Initial Public Offering Price:	99.852%
Proceeds to Issuer (before expenses):	\$148,465,500
Optional Redemption:	Make-Whole Call, 20bps spread over U.S. Treasuries
Interest Payment Dates:	Semi-annually in arrears on January 1 and July 1 of each year, commencing on July 1, 2007
Sole Bookrunner:	Goldman, Sachs & Co.
Senior Lead Managers:	BNY Capital Markets, Inc. KeyBanc Capital Markets, a Division of McDonald Investments Inc.
Co-Managers:	A.G. Edwards & Sons, Inc. Banc of America Securities LLC

The issuer has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the issuer and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, the issuer, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling Goldman, Sachs & Co. toll-free at 1-866-471-2526.

AVISTA CORPORATION

TO

CITIBANK, N.A.

*As Successor Trustee under
Mortgage and Deed of Trust,
dated as of June 1, 1939*

Forty-first Supplemental Indenture

*Providing among other things for a Series of Bonds designated
“First Mortgage Bonds, 5.70% Series due 2037”
Due July 1, 2037*

Dated as of December 1, 2006

FORTY-FIRST SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of the 1st day of December, 2006, 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 388 Greenwich Street – 14th Floor, New York, New York 10013 (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 "Forty-first 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 Fortieth Supplemental Indentures being herein sometimes called the "Mortgage"); and

WHEREAS the Original Mortgage and the First through Thirty-ninth Supplemental Indentures have been appropriately filed or recorded in various official records in the States of Washington, Idaho, Montana and Oregon, as set forth in the First through Fortieth Supplemental Indentures and the Instrument of Further Assurance, dated December 15, 2001, hereinafter referred to; and

WHEREAS the Fortieth Supplemental Indenture, dated as of April 1, 2006 has been appropriately filed or recorded in the various official records in the States of Washington, 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 Montana and Oregon; 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 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, 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, as contemplated in Sections 113 and 116 of the Original Mortgage, as amended by the Twenty-ninth Supplemental Indenture, dated as of December 1, 2001, the Mortgage may be modified or altered with the consent of the owners of sixty per centum (60%) or more in principal amount of bonds outstanding under the Mortgage; and

WHEREAS, as set forth in the respective supplemental indentures referred to below, the owners of the bonds of the respective series referred to below, which series were established in such respective supplemental indentures, are deemed to have consented to the proposed amendment to Section 28 of the Original Mortgage set forth in such supplemental indentures:

<u>Supplemental Indenture</u>	<u>Series (No.)</u>
Thirty-second, dated as of September 1, 2003	6.125% Series due 2013 (30)
Thirty-fourth, dated as of November 1, 2004	5.45% Series due 2019 (32)
Thirty-fifth, dated as of December 1, 2004	Collateral Series 2004A (33)
Thirty-eighth, dated as of May 1, 2005	Collateral Series 2005B (37) Collateral Series 2005C (38)
Thirty-ninth, dated as of November 1, 2005	6.25% Series due 2035 (39)
Fortieth, dated as of April 1, 2006	Collateral Series due 2011 (40)

(the bonds of such series being hereinafter called the "Consenting Bonds"); and

WHEREAS, as shown on Exhibit A hereto, the aggregate principal amount of the Consenting Bonds outstanding under the Mortgage is \$777,550,000 which represents seventy-seven and seven tenths per centum (77.7%) of the aggregate principal amount of all bonds outstanding under the Mortgage; and

WHEREAS, the Company now desires to make the foregoing amendment to the Original Mortgage, as evidenced by the adoption by the Board of Directors of Resolutions approving such amendment and authorizing the execution and delivery of this Forty-first Supplemental Indenture in order, among other things, to evidence the same;

WHEREAS the execution and delivery by the Company of this Forty-first Supplemental Indenture and the terms of the Bonds of the Forty-first Series, hereinafter referred to, and the amendment to the Mortgage referred to above, 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 Forty-first 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 Original 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.

The property so conveyed or intended to be so conveyed under the Mortgage shall include, but shall not be limited to, the property set forth in Exhibit C hereto, the particular description of which is intended only to aid in the identification thereof and shall not be construed as limiting the force, effect and scope of the foregoing.

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: (1) 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 Forty-first 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

Forty-first Series of Bonds

SECTION 1. (I) There shall be a Series of Bonds designated "First Mortgage Bonds, 5.70% Series due 2037" (herein sometimes referred to as the "Bonds of the Forty-first 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 D hereto. The Bonds of the Forty-first 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 Original Mortgage provided.

The Bonds of the Forty-first Series shall mature, shall bear interest and shall be payable as set forth below:

(a) the principal of Bonds of the Forty-first Series shall (unless theretofore paid) be payable on the Stated Maturity Date (as hereinafter defined);

(b) the Bonds of the Forty-first Series shall bear interest at the rate of five and seventy one-hundredths percentum (5.70%) 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 D; 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 for which payment is made shall be computed on the basis of a 360-day year consisting of twelve 30-days months;

(c) the principal of and premium, if any, and interest on each Bond of the Forty-first 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 Forty-first Series (other than interest payable at Maturity) shall be payable by check, in similar coin or currency, mailed to the registered owner thereof as of the close of business on the Record Date next preceding each Interest Payment Date; provided, however, that if such registered owner shall be a securities depository, such payment may be made by such other means in lieu of check as shall be agreed upon by the Company, the Trustee and such registered owner.

(d) The Bonds of the Forty-first Series shall be redeemable in whole at any time, or in part from time to time, at the option of the Company at a redemption price equal to the greater of

(i) 100% of the principal amount of the Bonds being redeemed, and

(ii) the sum of the present values of the remaining scheduled payments of principal of and interest (not including any portion of any scheduled payment of interest which accrued prior to the redemption date) on the Bonds being redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Yield (as hereinafter defined) plus 20 basis points,

plus, in the case of either (i) or (ii) above, whichever is applicable, accrued interest on such Bonds to the date of redemption.

(e) (i) "Treasury Yield" means, with respect to any redemption of Bonds of the Forty-first Series, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price. The Treasury Yield shall be calculated as of the third business day preceding the redemption date or, if the Bonds to be redeemed are to be caused to be deemed to have been paid within the meaning of Section 106 of the Original Mortgage, as amended, prior to the redemption date, then as of the third business day prior to the earlier of (x) the date notice of such redemption is mailed to bondholders pursuant to Section 52 of the Original Mortgage, as amended, and (y) the date irrevocable arrangements with the Trustee for the mailing of such notice shall have been made, as the case may be (the "Calculation Date").

(ii) "Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Bonds of the Forty-first Series that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds.

(iii) "Comparable Treasury Price" means, (A) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding the Calculation Date, as set forth in the H.15 Daily Update of the Federal Reserve Bank of New York or (B) if such release (or any successor release) is not published or does not contain such prices on such business day, the Reference Treasury Dealer Quotation for the Calculation Date.

(iv) "H.15(519)" means the weekly statistical release entitled "Statistical Release H.15 (519)", or any successor publication, published by the Board of Governors of the Federal Reserve System.

(v) "H.15 Daily Update" means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System or any successor site or publication.

(vi) "Independent Investment Banker" means Goldman, Sachs & Co. or BNY Capital Markets, Inc. or, if so determined by the Company, any other independent investment banking institution of national standing appointed by the Company and reasonably acceptable to the Trustee.

(vii) "Reference Treasury Dealer Quotation" means, with respect to the Reference Treasury Dealer, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount and quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding the Calculation Date).

(viii) "Reference Treasury Dealer" means a primary U.S. Government securities dealer in New York City appointed by the Company and reasonably acceptable to the Trustee.

(II) (a) At the option of the registered owner, any Bonds of the Forty-first Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, shall be exchangeable for a like aggregate principal amount of Bonds of the same Series of other authorized denominations.

The Bonds of the Forty-first Series shall be transferable, upon the surrender thereof for cancellation, together with a written instrument of transfer in form approved by the registrar duly executed by the registered owner or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York.

Upon any exchange or transfer of Bonds of the Forty-first Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Original Mortgage, but the Company hereby waives any right to make a charge in addition thereto or any exchange or transfer of Bonds of the Forty-first Series; provided, however, that the Company shall not be required to make any transfer or exchange of any Bonds of the Forty-first Series for a period of 10 days next preceding any selection of such Bonds for redemption, nor shall it be required to make transfers or exchange of any Bonds of the Forty-first Series which shall have been selected for redemption in whole or in part.

The Bonds of the Forty-first Series are initially to be issued in global form, registered in the name of Cede & Co., as nominee for The Depository Trust Company (the "Depository"). Notwithstanding the provisions of subdivision (a) above, such Bonds shall not be transferable, nor shall any purported transfer be registered, except as follows:

(i) such Bonds may be transferred in whole, and appropriate registration of transfer effected, to the Depository, or by the Depository to another nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any successor securities depository or any nominee thereof;

(ii) such Bonds may be transferred in whole, and appropriate registration of transfer effected, to the beneficial holders thereof, and thereafter shall be transferable, if:

(A) The Depository, or any successor securities depository, shall have notified the Company and the Trustee that (I) it is unwilling or unable to continue to act as securities depository with respect to such Bonds or (II) it is no longer a clearing agency registered under the Securities Exchange Act of 1934, as amended, and, in either case, the Trustee shall not have been notified by the Company within one hundred twenty (120) days of the identity of a successor securities depository with respect to such Bonds; or

(B) the Company shall have delivered to the Trustee a written order to the effect that such Bonds shall be so transferable on and after a date specified therein.

The Bonds of the Forty-first Series, when in global form, shall bear a legend as to such global form and the foregoing restrictions on transfer substantially as set forth below:

This global bond is held by Cede & Co., as nominee for The Depository Trust Company (the "Depository") for the benefit of the beneficial owners hereof. This bond may not be transferred, nor may any purported transfer be registered, except that (i) this bond may be transferred in whole, and appropriate registration of transfer effected, if such transfer is by Cede & Co., as nominee for the Depository, to the Depository, or by the Depository to another nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any successor Bonds depository or any nominee thereof; and (ii) this bond may be transferred, and appropriate registration of transfer effected, to the beneficial holders hereof, and thereafter shall be transferable without restrictions (except as provided in the preceding paragraph) if: (A) the Depository, or any successor securities depository, shall have notified the Company and the Trustee that (I) it is unwilling or unable to continue to act as securities depository with respect to the Bonds or (II) it is no longer a clearing agency registered under the Securities Exchange Act of 1934, as amended, and, in either case, the Trustee shall not have been notified by the Company within one hundred twenty (120) days of the identity of a successor securities depository with respect to the Bonds; or (B) the Company shall have delivered to the Trustee a written order to the effect that the Bonds shall be so transferable on and after a date specified therein.

(III) For all purposes of this Forty-first Supplemental Indenture, except as otherwise expressly provided or unless the context otherwise requires, the terms listed below, when used with respect to the Bonds of the Forty-first Series, shall have the meanings specified below:

“Interest Payment Date” means January 1 and July 1 in each year, commencing July 1, 2007.

“Maturity” means the date on which the principal of the Bonds of the Forty-first Series becomes due and payable, whether at the Stated Maturity Date, upon redemption or acceleration, or otherwise.

“Record Date”, with respect to any Interest Payment Date, means the December 15 or June 15, as the case may be, next preceding such Interest Payment Date.

“Stated Maturity Date” means July 1, 2037.

(IV) Notwithstanding the provisions of Section 106 of the Original Mortgage, as amended, the Company shall not cause any Bonds of the Forty-first Series, or any portion of the principal amount thereof, to be deemed to have been paid as provided in such Section and its obligations in respect thereof to be deemed to be satisfied and discharged prior to the Maturity thereof unless the Company shall deliver to the Trustee either:

(a) an instrument wherein the Company, notwithstanding the effect of Section 106 of the Original Mortgage, as amended, in respect of such Bonds, shall assume the obligation (which shall be absolute and unconditional) to irrevocably deposit with the Trustee such additional sums of money, if any, or additional government obligations (meeting the requirements of Section 106), if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or government obligations theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such Bonds or portions thereof, all in accordance with and subject to the provisions of Section 106; provided, however, that such instrument may state that the obligation of the Company to make additional deposits as aforesaid shall be subject to the delivery to the Company by the Trustee of a notice asserting the deficiency accompanied by an opinion of an independent accountant showing the calculation thereof (which opinion shall be obtained at the expense of the Company); or

(b) an Opinion of Counsel to the effect that the holders of such Bonds, or portions of the principal amount thereof, will not recognize income, gain or loss for United States federal income tax purposes as a result of the satisfaction and discharge of the Company’s indebtedness in respect thereof and will be subject to United States federal income tax on the same amounts, at the same times and in the same manner as if such satisfaction and discharge had not been effected.

(V) The Bonds of the Forty-first Series shall have such further terms as are set forth in Exhibit D hereto. If there shall be a conflict between the terms of the form of bond and the provisions of the Mortgage, the provisions of the Mortgage shall control to the extent permitted by law.

(VI) Upon the delivery of this Forty-first Supplemental Indenture, Bonds of the Forty-first Series in an aggregate principal amount of \$150,000,000 are to be authenticated and delivered, upon the basis of retired bonds, and will be Outstanding, in addition to \$1,000,550,000 aggregate principal amount of Bonds of prior Series Outstanding at the date of delivery of this Forty-first Supplemental Indenture; it being understood that, subject to the provisions of the Mortgage, there shall be no limit under the Mortgage upon the aggregate principal amount of Bonds of the Forty-first Series which may be authenticated and delivered hereunder.

ARTICLE II

Amendment of Original Mortgage

SECTION 1. Section 28 of the Original Mortgage is hereby amended to add at the end thereof a new paragraph reading as follows:

Notwithstanding the foregoing, any Opinion of Counsel delivered pursuant to subdivision (7) of this Section 28, or pursuant to any other provision of this Indenture by reference to this Section 28, may, at the election of the Company, omit any or all of the statements contained in clause (a) of subdivision (7) if there shall have been delivered to the Trustee a policy of title insurance (or endorsement thereto) issued by a nationally recognized title insurance company, in an amount not less than twenty-eight percent (28%) of the cost or fair value to the Company (whichever is less) of the Property Additions made the basis of such application, insuring, in customary terms, against risk of loss sustained or incurred by the Trustee by reason of any circumstances or conditions by virtue of which the statements omitted from clause (a) of such Opinion of Counsel would not have been accurate if made.

SECTION 2. The Trustee hereby assents to the foregoing amendment to the Original Mortgage (to the extent, if any, that such assent is necessary under the provisions of Section 114 of the Original Mortgage).

ARTICLE III

Bond Insurance

SECTION 1. The Company shall deliver to the Trustee, concurrently with its application for the authentication and delivery of the Bonds of the Forty-first Series, a financial guaranty insurance policy (the "Policy") with respect to such bonds issued by XL Capital Assurance, Inc. ("XLCA").

SECTION 2. To the extent permitted by law and so long as XLCA is not in default under the Policy and is not subject to any bankruptcy, insolvency or similar proceedings:

(a) notwithstanding any other provision of the Indenture, the holders of the Bonds of the Forty-first Series shall be deemed to have agreed, by their purchase

and acceptance thereof, that XLCA shall be entitled to exercise all rights and remedies of the holders of the Bonds which arise upon the occurrence and continuance of a Completed Default (as defined in Section 65 of the Original Mortgage) (including but not limited to the right to vote to direct the Trustee to accelerate the maturity of all bonds then outstanding under the Mortgage and the right to vote for the approval or disapproval of any plan or reorganization or liquidation) to the same extent as if XLCA were the holder of all the Bonds of the Forty-first Series;

(b) the Company shall not enter into any amendment or modification of the Mortgage that would require the consent of holders of Bonds of the Forty-first Series without the prior written consent of XLCA.;

(c) Anything herein to the contrary notwithstanding, in the event that XLCA shall make a payment in respect of an amount of principal or interest due on such Bonds of the Forty-first Series, pursuant to the Policy, the Bonds and each such amount due on the Bonds shall remain outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Company, and the lien of the Mortgage and all covenants, agreements and other obligations of the Company to the holders of such Bonds, shall continue to exist and, to the extent of such payment by XLCA, shall run to the benefit of XLCA, and XLCA shall be subrogated to the rights of such holders in respect of such payment; and

(d) Anything herein to the contrary notwithstanding, in determining whether the rights of the holders of the Bonds of the Forty-first Series will be adversely affected by any action taken pursuant to the terms and provisions hereof, the effect on such holders shall be considered as if there were no Policy.

SECTION 3. (a) At least two (2) business days prior to any Interest Payment Date or the Stated Maturity Date (any such date being hereinafter called a "Payment Date"), the Company shall advise the Trustee as to whether or not there will be sufficient funds in the funds on account with the Trustee to pay the principal of or interest on the Bonds of the Forty-first Series on such Payment Date. If the Company has advised the Trustee that there will be insufficient funds to make such payment, the Trustee shall so notify XLCA by 10 a.m. New York City time on the business day before the Payment Date. Such notice shall specify the amount of the anticipated deficiency and whether such Bonds will be deficient as to principal or interest, or both. The Policy will require XLCA to make payments of principal or interest due on the Bonds on the later of (a) one (1) Business Day following receipt by XLCA of a notice of nonpayment from the Trustee of (b) the Business Day on which such scheduled payment is due.

For the purposes of the preceding paragraph, "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to XLCA, which notice shall specify (a) the name of the Trustee, (b) the number of the Policy, (c) the claimed amount and (d) the Payment Date on which the claimed amount will become due.

(b) in the event that the Trustee has actual notice that any payment of principal of or interest on a Bond of the Forty-first Series which has become due and which is made to a holder by or on behalf of the Company has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify XLCA of such court order and shall notify all holders of the Bonds that in the event that any holder's payment is so recovered, such holder will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available; and the Trustee shall furnish to XLCA its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from holders and the dates on which such payments were made; and

(c) XLCA shall, to the extent it makes any payment in respect of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payment in accordance with the terms of the Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note XLCA's rights as subrogee on the registration books of the Company maintained by the Trustee with respect to the related Bonds upon receipt from XLCA of proof, reasonably satisfactory to the Trustee, of the payment of amounts in respect of such interest to the holders of such Bonds and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note XLCA's rights as subrogee on the registration books of the Company maintained by the Trustee with respect to the related Bonds upon surrender of such Bonds by the holders thereof together with proof reasonably satisfactory to the Trustee, of the payment by XCLA of amounts in respect of the principal thereof.

(d) Upon payment of a claim under the Policy, the Trustee shall establish a separate special purpose trust account for the benefit of holders of Bonds of the Forty-first Series (the "Policy Payments Account") over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Policy in trust on behalf of holders of the Bonds of the Forty-first Series and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to holders of Bonds of the Forty-first Series in the same manner as principal and interest payments are to be made with respect to such Bonds under the Mortgage. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

The Trustee shall keep a complete and accurate record of all funds deposited by XLCA into the Policy Payments Account and the allocation of such funds to payment of principal of and interest on any Bond of the Forty-first Series. XLCA shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. The funds held in the Policy Payments Account shall not be part of the Mortgaged and Pledged Property (as defined in the Original Mortgage).

Any funds remaining in the Policy Payments Account following a Payment Date shall promptly be remitted to XLCA.

ARTICLE IV

Miscellaneous Provisions

SECTION 1. The terms defined in the Original Mortgage shall, for all purposes of this Forty-first 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 Forty-first 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 Forty-first 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 Forty-first Supplemental Indenture.

SECTION 3. Whenever in this Forty-first 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 Forty-first 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 Forty-first 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, the holders of the Bonds and coupons Outstanding under the Mortgage and XLCA, any right, remedy or claim under or by reason of this Forty-first Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Forty-first 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 and XLCA. XLCA shall be deemed to be a third-party beneficiary of all rights and remedies granted to it in this Forty-first Supplemental Indenture.

SECTION 5. This Forty-first 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 Forty-first Supplemental Indenture shall not be deemed to be any part thereof.

IN WITNESS WHEREOF, on the 12th day of December, 2006, 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 12th day of December, 2006, 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 _____

Name: Christy M. Burmeister-Smith
Title: Vice President and Treasurer

Attest:

Name: Susan Y. Miner
Title: Assistant Corporate Secretary

Executed, sealed and delivered by AVISTA CORPORATION in the presence of:

Name: Diane C. Thoren

Name: Ryan L. Krasselt

By _____
Name:
Title:

Attest:

Name:
Title:

Executed, sealed and delivered by CITIBANK, N.A., in the presence of:

Name:

Name:

STATE OF WASHINGTON)
) ss.:
COUNTY OF SPOKANE)

On the 12th day of December, 2006, before me personally appeared Christy M. Burmeister-Smith, to me known to be a Vice President and the Treasurer 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 she was authorized to execute said instrument and that the seal affixed is the corporate seal of said Corporation.

On the 12th day of December, 2006, before me, a Notary Public in and for the State and County aforesaid, personally appeared Christy M. Burmeister-Smith, known to me to be a Vice President and the Treasurer 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.

Notary Public

STATE OF WASHINGTON)
) ss.:
COUNTY OF SPOKANE)

On the ____ day of December, 2006 before me personally appeared _____, to me known to be a ____ 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] [she] was authorized to execute said instrument and that the seal affixed is the corporate seal of said Corporation.

On the ____ day of December, 2006, before me, a Notary Public in and for the State and County aforesaid, personally appeared _____, known to me to be a _____ 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.

Notary Public

**MORTGAGE, SUPPLEMENTAL INDENTURES
AND SERIES OF BONDS**

MORTGAGE OR SUPPLEMENTAL INDENTURE	DATED AS OF	NO.	SERIES		PRINCIPAL AMOUNT ISSUED	PRINCIPAL AMOUNT OUTSTANDING
				DESIGNATION		
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	68,000,000
Twenty-Seventh	January 1, 1994	25	Secured Medium-Term Notes, Series B (\$250,000,000 authorized)	161,000,000	5,000,000
Twenty-Eighth	September 1, 2001	26	Collateral Series due 2002	220,000,000	None
Twenty-Ninth	December 1, 2001	27	7.75% Series due 2007	150,000,000	150,000,000
Thirtieth	May 1, 2002	28	Collateral Series due 2003	225,000,000	None
Thirty-first	May 1, 2003	29	Collateral Series due 2004	245,000,000	None
Thirty-second	September 1, 2003	30	6.125% Series due 2013	45,000,000	45,000,000
Thirty-third	May 1, 2004	31	Collateral Series due 2005	350,000,000	None
Thirty-fourth	November 1, 2004	32	5.45% Series due 2019	90,000,000	90,000,000
Thirty-fifth	December 1, 2004	33	Collateral Series 2004A	88,850,000	88,850,000
Thirty-sixth	December 1, 2004	34	Collateral Series 2004B	66,700,000	None
		35	Collateral Series 2004C	17,000,000	None
Thirty-seventh	December 1, 2004	36	Collateral Series 2004D	350,000,000	None
Thirty-eighth	May 1, 2005	37	Collateral Series 2005B	66,700,000	66,700,000
		38	Collateral Series 2005C	17,000,000	17,000,000
Thirty-ninth	November 1, 2005	39	6.25% Series due 2035	100,000,000	100,000,000
				50,000,000	50,000,000
Fortieth	April 1, 2006	40	Collateral Series due 2011	320,000,000	320,000,000

**FILING AND RECORDING OF
FORTIETH SUPPLEMENTAL INDENTURE**

FILING IN STATE OFFICES

State	Office of	Date	Financing Statement Document Number
Washington	Secretary of State	8/21/06	2006-235-2968-5
Idaho	Secretary of State	8/21/06	B2006 - 1011221 -5
Montana	Secretary of State	8/22/06	88795421
Oregon	Secretary of State	8/21/06	7367732

RECORDING IN COUNTY OFFICES

County	Office of	Date	Real Estate Mortgage Records			Financing Statement Document Number
			Document Number	Book	page	
Washington						
Adams	Auditor	8/21/06	282531	N/A	N/A	N/A
Asotin	Auditor	8/21/06	293433	N/A	N/A	N/A
Benton	Auditor	8/21/06	2006-027482	N/A	N/A	N/A
Douglas	Auditor	8/21/06	3101332	N/A	N/A	N/A
Ferry	Auditor	8/21/06	266301	N/A	N/A	N/A
Franklin	Auditor	8/21/06	1688257	N/A	N/A	N/A
Garfield	Auditor	8/22/06	20060522	N/A	N/A	N/A
Grant	Auditor	8/21/06	1198076	N/A	N/A	N/A
Klickitat	Auditor	8/21/06	1064711	N/A	N/A	N/A
Lewis	Auditor	8/21/06	3259833	N/A	N/A	N/A
Lincoln	Auditor	8/21/06	20060441846	91	2417	N/A
Pend Oreille	Auditor	8/22/06	20060288518	N/A	N/A	N/A
Skamania	Auditor	8/21/06	2006162711	N/A	N/A	N/A
Spokane	Auditor	8/21/06	5423768	N/A	N/A	N/A
Stevens	Auditor	8/21/06	2006-0010041	351	883	N/A
Thurston	Auditor	8/23/06	3859580	N/A	N/A	N/A
Whitman	Auditor	8/21/06	673654	N/A	N/A	N/A
Idaho						
Benewah	Recorder	8/21/06	243737	N/A	N/A	N/A
Bonner	Recorder	8/29/06	711884	N/A	N/A	N/A
Boundary	Recorder	8/21/06	228005	N/A	N/A	N/A
Clearwater	Recorder	8/21/06	203489	N/A	N/A	N/A
Idaho	Recorder	8/21/06	450398	N/A	N/A	N/A
Kootenai	Recorder	8/21/06	2050857000	N/A	N/A	N/A
Latah	Recorder	8/21/06	507773	N/A	N/A	N/A
Lewis	Recorder	9/1/06	133900	N/A	N/A	N/A

RECORDING IN COUNTY OFFICES

County	Real Estate Mortgage Records					Financing Statement Document Number
	Office of	Date	Document Number	Book	page	
Nez Perce	Recorder	8/21/06	734576	N/A	N/A	N/A
Shoshone	Recorder	8/21/06	432588	N/A	N/A	N/A
Montana						
Big Horn	Clerk & Recorder	8/28/06	335528	88	812	N/A
Broadwater	Clerk & Recorder	8/21/06	154023	97	61	N/A
Golden Valley	Clerk & Recorder	8/21/06	78850	M	12673	N/A
Meagher	Clerk & Recorder	8/21/06	134087	F65	511	N/A
Mineral	Clerk & Recorder	8/21/06	100080	N/A	N/A	N/A
Rosebud	Clerk & Recorder	8/22/06	99967	115	639	N/A
Sanders	Clerk & Recorder	8/21/06	55342	N/A	N/A	N/A
Stillwater	Clerk & Recorder	8/21/06	327925	N/A	N/A	N/A
Treasure	Clerk & Recorder	8/21/06	79696	17	814	N/A
Wheatland	Clerk & Recorder	8/21/06	103927	M	17624	N/A
Yellowstone	Clerk & Recorder	8/21/06	3391785	N/A	N/A	N/A
Oregon						
Douglas	Recorder	8/21/06	2006-020415	N/A	N/A	N/A
Jackson	Recorder	8/29/06	2006-043895	N/A	N/A	N/A
Josephine	Recorder	8/21/06	2006-016743	N/A	N/A	N/A
Klamath	Recorder	8/22/06	2006-016894	N/A	N/A	N/A
Morrow	Recorder	8/21/06	2006-17470	N/A	N/A	N/A
Union	Recorder	8/21/06	20064311	N/A	N/A	N/A
Wallowa	Recorder	8/21/06	06-56175	N/A	N/A	N/A

PROPERTY ADDITIONS

THE ADDITIONAL ELECTRIC SUBSTATIONS AND SUBSTATION SITES OF THE COMPANY, in the States of Washington and Idaho, including all buildings, structures, towers, poles, equipment, appliances and devices for transforming, converting and distributing electric energy, and the lands of the company on which the same are situated and all of the company's real estate and interests therein, machinery, equipment, appliances, devices, appurtenances and supplies, franchises, permits and other rights and other property forming a part of said substations or any of them, or used or enjoyed or capable of being used or enjoyed in connection with any thereof, including, but not limited to, the following situated in the States of Washington and Idaho, to wit:

- 1) Spokane County, Washington: "Downtown East 115kV Substation"; Property No. WA-32-035; Grantor: S&C Enterprises, LLC; Ptn of Block 1, Block 2 and Lots 2-7, Block 3, 1st Addition to 3rd Addition to Railroad Addition, with vacated streets, situate in SW/4 of Section 17, Township 25 North, Range 43 East, W.M.
- 2) Spokane County, Washington: "Indian Trail 115kV Substation": Property No. WA-32-033; Grantor: W & M, LLC; Ptn of SE/4 in Sec. 9 and Ptn of SW/4 in Sec. 10, all in Township 26 North, Range 42 East, W.M.
- 3) Spokane County, Washington: "Northeast 115kV Substation"; Property No. WA-32-072; Grantor: Spokane County; Ptn of NW/4 SW/4 of Section 22, Township 26 North, Range 43 East, W.M.
- 4) Nez Perce County, Idaho: "Sweetwater 115kV Substation"; Property No. ID-N-035; Grantor: Heitstuman Ranch Co.; Ptn. Craig Donation Land Claim in NW/4 of Section 20, Township 35 North, Range 3 West, B.M.
- 5) Bonner County, Idaho: "Pine Street 115kV Substation"; Property No. ID-7B-035; Grantor: City of Sandpoint; South Half of 16' wide alleyway (vacated by Ordinance #509635) adjacent to Block 1, Lots 1 and 2 of Law's Third Addition to Sandpoint, Idaho, located in the NE/4 of Sec 22, Township 57 North, Range 2 West, B.M.

(Form of Bond)

This bond is subject to restrictions on transfer,
as hereinafter set forth

CUSIP 05379B AM 9

AVISTA CORPORATION

First Mortgage Bond,
5.70% Series due 2037

REGISTERED
NO.

REGISTERED
\$

AVISTA CORPORATION, a corporation of the State of Washington (hereinafter called the Company), for value received, hereby promises to pay to
, or registered assigns, on July 1, 2037,

DOLLARS

and to pay the registered owner hereof interest thereon semi-annually in arrears on January 1 and July 1 in each year (each such date being hereinafter called an "Interest Payment Date"), commencing July 1, 2007 and at Maturity (as hereinafter defined), at the rate of five and seventy one-hundredths percentum (5.70%) per annum computed on the basis of a 360-day year consisting of twelve 30-day months, until the Company's obligation with respect to the payment of such principal shall have been discharged. This bond shall bear interest from December 15, 2006 or, if the date of this bond shall be July 1, 2007 or thereafter, from the most recent Interest Payment Date on or prior to the date of this bond to which interest has been paid; provided, however, that if the date of the bond shall be after a Record Date (as hereinafter defined) and prior to the corresponding Interest Payment Date, this bond shall bear interest from such Interest Payment Date. The principal of and premium, if any, and interest on this bond payable at Maturity shall be payable upon presentation hereof at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. The interest on this bond (other than interest payable at Maturity) shall be paid by check, in the similar coin or currency, mailed to the registered owner hereof as of the close of business on the December 15 or June 15, as the case may be, next preceding each Interest Payment Date (each such date being herein called a "Record Date"); provided, however, that if such registered owner shall be a securities depository, such payment shall be made by such other means in lieu of check as shall

be agreed upon by the Company, the Trustee and such registered owner. Interest payable at Maturity shall be paid to the person to whom principal shall be paid. As used herein, the term "Maturity" shall mean the date on which the principal of this bond becomes due and payable, whether at stated maturity, upon redemption or acceleration, or otherwise.

This bond is one of an issue of bonds of the Company issuable in series and is one of a series known as its First Mortgage Bonds, 5.70% Series due 2037, all bonds of all such series being issued and issuable under and equally secured (except insofar as any sinking or other fund, established in accordance with the provisions of the Mortgage hereinafter mentioned, may afford additional security for the bonds of any particular series) by a Mortgage and Deed of Trust, dated as of June 1, 1939 (the "Original Mortgage"), executed by the Company (formerly known as The Washington Water Power Company) to City Bank Farmers Trust Company and Ralph E. Morton, as Trustees (Citibank, N.A., successor Trustee to both said Trustees). The Original Mortgage has been amended and supplemented by various supplemental indentures, including the Forty-first Supplemental Indenture, dated as of December 1, 2006, and, as so amended and supplemented, is herein called the "Mortgage". Reference is made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Trustee in respect thereof, the duties and immunities of the Trustee and the terms and conditions upon which the bonds are and are to be secured and the circumstances under which additional bonds may be issued. If there shall be a conflict between the terms of this bond and the provisions of the Mortgage, the provisions of the Mortgage shall control to the extent permitted by law. The holder of this bond, by its acceptance hereof, shall be deemed to have consented and agreed to all of the terms and provisions of the Mortgage and, further, in the event that such holder shall not be the sole beneficial owner of this bond, shall be deemed to have agreed to use all commercially reasonable efforts to cause all direct and indirect beneficial owners of this bond to have knowledge of the terms and provisions of the Mortgage and of this bond and to comply therewith, including particularly, but without limitation, any provisions or restrictions in the Mortgage regarding the transfer or exchange of such beneficial interests and any legend set forth on this bond.

The Mortgage may be modified or altered by affirmative vote of the holders of at least 60% in principal amount of the bonds outstanding under the Mortgage, considered as one class, or, if the rights of one or more, but less than all, series of bonds then outstanding are to be affected, then such modification or alteration may be effected with the affirmative vote only of 60% in principal amount of the bonds outstanding of the series so to be affected, considered as one class, and, furthermore, for limited purposes, the Mortgage may be modified or altered without any consent or other action of holders of any series of bonds. No modification or alteration shall, however, permit an extension of the Maturity of the principal of, or interest on, this bond or a reduction in such principal or the rate of interest hereon or any other modification in the terms of payment of such principal or interest or the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of a lien on the mortgaged and pledged property without the consent of the holder hereof.

The principal hereof may be declared or may become due prior to the stated maturity date on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a completed default as in the Mortgage provided.

As provided in the Mortgage and subject to certain limitations therein set forth, this bond or any portion of the principal amount hereof will be deemed to have been paid if there has been irrevocably deposited with the Trustee moneys or direct obligations of or obligations guaranteed by the United States of America, the principal of and interest on which when due, and without regard to any reinvestment thereof, will provide moneys which, together with moneys so deposited, will be sufficient to pay when due the principal of and premium, if any, and interest on this bond when due.

The Mortgage contains terms, provisions and conditions relating to the consolidation or merger of the Company with or into, and the conveyance or other transfer, or lease, of assets to, another Corporation and to the assumption by such other Corporation, in certain circumstances, of all of the obligations of the Company under the Mortgage and on the Bonds secured thereby.

In the manner prescribed in the Mortgage, this bond is transferable by the registered owner hereof in person, or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York, upon surrender and cancellation of this bond, together with a written instrument of transfer whenever required by the Company duly executed by the registered owner or by its duly authorized attorney, and, thereupon, a new fully registered bond of the same Series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. The Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes.

In the manner prescribed in the Mortgage, any bonds of this series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, are exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

The bonds of this series shall be redeemable in whole at any time or in part from time to time, at the option of the Company, upon notice mailed as provided in Section 52 of the Mortgage, at the option of the Company at a redemption price equal to the greater of

(a) 100% of the principal amount of the bonds being redeemed, and

(b) the sum of the present values of the remaining scheduled payments of principal of and interest (not including any portion of any scheduled payment of interest which accrued prior to the redemption date) on the bonds being redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Yield (as hereinafter defined) plus 20 basis points,

plus, in the case of either (i) or (ii) above, whichever is applicable, accrued interest on such Bonds to the date of redemption.

“Treasury Yield” means, with respect to any redemption of the bonds of this series, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable

Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price. The Treasury Yield shall be calculated as of the third business day preceding the redemption date or, if the bonds to be redeemed are to be caused to be deemed to have been paid within the meaning of Section 106 of the Original Mortgage, as amended, prior to the redemption date, then as of the third business day prior to the earlier of (x) the date notice of such redemption is mailed to bondholders pursuant to Section 52 of the Original Mortgage, as amended, and (y) the date irrevocable arrangements with the Trustee for the mailing of such notice shall have been made, as the case may be (the "Calculation Date").

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Bonds of the Forty-first Series that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the bonds.

"Comparable Treasury Price" means, (A) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding the Calculation Date, as set forth in the H.15 Daily Update of the Federal Reserve Bank of New York or (B) if such release (or any successor release) is not published or does not contain such prices on such business day, the Reference Treasury Dealer Quotation for the Calculation Date.

"H.15(519)" means the weekly statistical release entitled "Statistical Release H.15 (519)", or any successor publication, published by the Board of Governors of the Federal Reserve System.

"H.15 Daily Update" means the daily update of H.15(519) available through the worldwide website of the Board of Governors of the Federal Reserve System or any successor site or publication.

"Independent Investment Banker" means Goldman, Sachs & Co. or BNY Capital Markets, Inc. or, if so determined by the Company, any other independent investment banking institution of national standing appointed by the Company and reasonably acceptable to the Trustee.

"Reference Treasury Dealer Quotation" means, with respect to the Reference Treasury Dealer, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount and quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding the Calculation Date).

"Reference Treasury Dealer" means a primary U.S. Government securities dealer in New York City appointed by the Company and reasonably acceptable to the Trustee.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this bond against any incorporator or any past, present or future subscriber to the

capital stock, stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company or any predecessor or successor corporation, under any rule of law, statute or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, subscribers, stockholders, officers and directors being released by the holder or owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage.

This bond shall not become obligatory until Citibank, N.A., the Trustee under the Mortgage, or its successor thereunder, shall have signed the form of certificate endorsed hereon.

IN WITNESS WHEREOF, AVISTA CORPORATION has caused this bond to be signed in its corporate name by its President or one of its Vice Presidents by his signature or a facsimile thereof, and its corporate seal to be impressed or imprinted hereon and attested by its Corporate Secretary or one of its Assistant Corporate Secretaries by his signature or a facsimile thereof.

Dated: AVISTA CORPORATION

By: _____

ATTEST: _____

TRUSTEE'S CERTIFICATE

This bond is one of the bonds of the Series herein designated, described or provided for in the within-mentioned Mortgage.

CITIBANK, N.A.
Trustee

By _____
Authorized Officer

DEPOSITARY LEGEND

This global bond is held by Cede & Co., as nominee for The Depository Trust Company (The “Depository”) for the benefit of the beneficial owners hereof. This bond may not be transferred, nor may any purported transfer be registered, except that (i) this bond may be transferred in whole, and appropriate registration of transfer effected, if such transfer is by Cede & Co., as nominee for the Depository, to the Depository, or by the Depository to another nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any successor Bonds depository or any nominee thereof; and (ii) this bond may be transferred, and appropriate registration of transfer effected, to the beneficial holders hereof, and thereafter shall be transferable without restrictions (except as provided in the preceding paragraph) if: (A) the Depository, or any successor securities depository, shall have notified the Company and the Trustee that (I) it is unwilling or unable to continue to act as securities depository with respect to the Bonds or (II) it is no longer a clearing agency registered under the Securities Exchange Act of 1934, as amended, and, in either case, the Trustee shall not have been notified by the Company within one hundred twenty (120) days of the identity of a successor securities depository with respect to the Bonds; or (B) the Company shall have delivered to the Trustee a written order to the effect that the Bonds shall be so transferable on and after a date specified therein.

STATEMENT OF INSURANCE

XL Capital Assurance, Inc. (“XLCA”), New York, New York has delivered its financial guaranty insurance policy (the “Policy”) with respect to the scheduled payments of principal of and interest on this bond, as and to the extent set forth in the Policy, to Citibank, N.A., as trustee (the “Trustee”) under the Mortgage and Deed of Trust, dated as of June 1, 1939, of Avista Corporation, as amended and supplemented. **The Policy is on file and available for inspection at the principal office of the Trustee and a copy thereof may be obtained from XLCA or the Trustee.**

ASSIGNMENT CERTIFICATE

FOR VALUE RECEIVED the undersigned hereby sells, assigns and transfers unto

[please insert social security or other identifying number of assignee]

[please print or typewrite name and address of assignee]

the within bond of AVISTA CORPORATION and does hereby irrevocably constitute and appoint _____, Attorney, to transfer said bond on the books of the within-mentioned Company, will full power of substitution in the premises.

Dated: _____

Notice: The signature to this assignment must correspond with the name as written upon the face of the bond in every particular without alteration or enlargement or any change whatsoever.