UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

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

Registrant's telephone number, including area code: 509-489-0500
Web site: http://www.avistacorp.com

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, no par value, together with Preferred Share Purchase Rights appurtenant thereto	New York Stock Exchange Pacific Stock Exchange
7 7/8% Trust Originated Preferred Securities, Series A	New York Stock Exchange
$12.40 Preferred Stock, Convertible Series L (depositary shares)	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of Class
Preferred Stock, Cumulative, Without Par Value

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

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Registrant's outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is $662,429,812.38, based on the last reported sale price thereof on the consolidated tape on February 26, 1999.

At February 26, 1999, 40,453,729 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

Document	Part of Form 10-K into Which Document is Incorporated
Proxy Statement to be filed in connection with the annual meeting of shareholders to be held May 13, 1999	Part III, Items 10, 11, 12 and 13

INDEX

* = not an applicable item in the 1998 calendar year for the Company

ACRONYMS AND TERMS

(The following acronyms and terms
are found in multiple locations within the document)

Acronym/Term	Meaning
aMW	- Average Megawatt - a measure of electrical energy over time
AFUCE	- Allowance for Funds Used to Conserve Energy; a carrying charge similar to AFUDC (see below) for conservation-related capital expenditures
AFUDC	- Allowance for Funds Used During Construction; represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period
Avista Corp.	- Avista Corporation, the Company
Avista Capital	- Parent company to the Company's non-regulated businesses
BPA	- Bonneville Power Administration
Capacity	- a measure of the rate at which a particular generating source produces electricity
Centralia	- the coal fired Centralia Power Plant in western Washington State
Colstrip	- the coal fired Colstrip Generating Project in southeastern Montana
CPUC	- California Public Utilities Commission
CT	- combustion turbine; a natural gas fired unit used primarily for peaking needs
DSM	- Demand Side Management - the process of helping customers manage their use of energy resources
Energy	- a measure of the amount of electricity produced from a particular generating source over time
FERC	- Federal Energy Regulatory Commission
IPUC	- Idaho Public Utilities Commission
KV	- Kilovolt - a measure of capacity on transmission lines
KW, KWH	- Kilowatt, kilowatthour, 1000 watts or 1000 watt hours
MW, MWH	- Megawatt, megawatthour, 1000 KW or 1000 KWH
OPUC	- Public Utility Commission of Oregon
Pentzer	- Pentzer Corporation, a wholly owned subsidiary of the Company which is the parent company to the majority of the Company's non-energy businesses
Therm	- Unit of measurement for natural gas; a therm is equal to one hundred cubic feet (volume) or 100,000 BTUs (energy)
Watt	- Unit of measurement for electricity; a watt is equal to the rate of work represented by a current of one ampere under a pressure of one volt
WUTC	- Washington Utilities and Transportation Commission

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-K at Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Safe Harbor Forward-Looking Statements." Forward-looking statements are all statements other than statements of historical fact, including without limitation those that are identified by the use of the words "will," "anticipates," "seeks to," "estimates," "expects," "intends," "plans," "predicts," and similar expressions.

ITEM 1. BUSINESS

COMPANY OVERVIEW

Avista Corporation (Avista Corp., or the Company), formerly known as The Washington Water Power Company, was incorporated in the State of Washington in 1889, and is a diversified energy services company. The name change to Avista Corporation became effective on January 1, 1999. At December 31, 1998, the Company's employees included 1,536 people in its utility operations and approximately 2,153 people in its majority-owned non-regulated businesses (energy and non-energy). The Company's corporate headquarters are in Spokane, Washington (Spokane), which serves as the Inland Northwest's center for manufacturing, transportation, health care, education, communication, agricultural and service businesses.

Regulatory, economic and technological changes have brought about the accelerating transformation of the electric utility industry from a vertically integrated monopoly to separate market driven businesses. Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth in order to achieve its goal of becoming a diversified North American energy company. The Company's strategies are described below.

The Company seeks to strengthen its position of leadership in energy delivery and generation as well as energy trading and marketing on a local, regional and national basis. The Company will seek to increase its asset and customer base through a focus on acquisitions and strategic alliances in all parts of its business. The Company intends to focus on growing its core energy business by seeking to acquire control of physical assets, specifically power generation assets and electric and natural gas transmission and distribution assets. The Company expects that initial growth will come at a local and regional level, with national growth to follow. Key strengths of the Company today include its position as one of the lowest cost producers of power in the nation, expertise in hydroelectric and power system management, plus capabilities in trading and wholesale and retail marketing of natural gas and electric energy.

Locally. The Company is a long-standing leader in the Northwest region of the United States, providing some of the lowest cost energy to its customers. The Company's strategy is to add selectively to its already strong foundation of state-regulated utility assets to solidify its position as a leading supplier of low-cost electric and natural gas energy services.

Regionally. The Company intends to add to its regulated and non-regulated assets on a regional basis and participate in industry consolidation to further optimize its assets and create greater economies of scale. In addition to energy delivery and generation, the Company plans to concentrate on growing its energy trading and marketing business. The strong growth in this business is expected to be driven by the Company's significant base of knowledge and experience in the operation of physical systems - for both natural gas and electric energy - in the region, as well as its relationship-focused approach to the customer. The Company will also focus on expanding its telecommunications business through its newest subsidiary, Avista Communications. (See Non-Energy business for additional information.)

Nationally. The Company's strong regional energy trading and marketing skills serve as a platform for the Company's growing national presence. The Company will seek to expand its customer base through Internet-based specialty billing and information services and relationships with other energy providers outside the Northwest, thereby leveraging its existing trading and marketing skills. On February 1, 1999, Avista Energy, Inc., (Avista Energy) a national energy trading and marketing subsidiary of Avista Corp. acquired Vitol Gas & Electric LLC, one of the top 20 energy marketing companies in the United States. (See National Energy Trading and Marketing for additional information.)

The Company conducts the majority of its Non-energy business through its wholly owned subsidiary, Pentzer Corporation (Pentzer). Pentzer's business strategy is to acquire controlling interests in a broad range of middle market companies, facilitate improved productivity and growth, and ultimately sell such companies to the public or a strategic buyer.

The Company's growth strategy will expose the Company to risks associated with rapid expansion, challenges in recruiting and retaining qualified personnel, risks associated with acquisitions, joint ventures and increasing competition. In addition, growth in the energy and trading and marketing business will expose the Company to increased financial and credit risks associated with commodity trading activities. The Company believes however, that its extensive experience in the electric and natural gas business, coupled with its strong management

team, will allow the Company to effectively manage its transition to a diversified North American energy company.

In order to implement its growth strategies, the Company has reorganized its operations into four lines of business - Energy Delivery, Generation and Resources, National Energy Trading and Marketing and Non-energy. The regulated utility

operations fall within Energy Delivery and Generation and Resources. The Energy Delivery business includes retail electric and natural gas distribution and transmission services. The Generation and Resources business includes generation and production, resource optimization, electric and natural gas commodity trading and wholesale marketing. Both the Energy Delivery and Generation and Resources lines of business fall within Avista Utilities, an operating division of Avista Corp. Avista Capital, which is a wholly-owned subsidiary of Avista Corp., owns all of the companies engaged in the National Energy Trading and Marketing and Non-energy lines of Business. The National Energy Trading and Marketing line of business includes Avista Advantage, Inc. (Avista Advantage), Avista Energy, Inc. (Avista Energy) and Avista Power, Inc. (Avista Power). See Item 1. Business - National Energy Trading and Marketing and Notes 1, 3 and 4 of Notes to Financial Statements for additional information. As of December 31, 1998 the Company had common equity investments of $216.6 million ($493.4 million including convertible securities) and $271.8 million in Avista Utilities and Avista Capital, respectively. The Non-energy line of business, also owned by Avista Capital, includes Avista Fiber, Inc. (Avista Fiber), Avista Development, Inc. (Avista Development), Avista Labs, Inc. (Avista Labs), Avista Communications, Inc. (Avista Communications) and Pentzer Corporation, which is the parent company to the majority of the Company's non-energy businesses. See Item 1. Business - Non-energy Business and Notes 1 and 17 of Notes to Financial Statements for additional information.

Below is the list of major companies owned by Avista Capital:

Avista Energy -	An electricity and natural gas marketing and trading company.
Avista Advantage -	A leading provider of Internet-based specialty billing and information services.
Avista Power -	Created in December 1998 to develop and own generation assets, primarily in support of Avista Energy.
Pentzer -	A wholly owned subsidiary of Avista Capital and the parent company for a majority of Avista Corp.'s Non-energy subsidiaries.
Avista Fiber -	Designs, builds and manages metropolitan area fiber optic cable networks.
Avista Development -	Real-estate and other investments.
Avista Labs -	The developer of proton exchange membrane fuel cell technology.
Avista Communications -	Created in January 1999 to provide local high-speed telecommunications services to under- served Northwest communities.

The Company's lines of business are illustrated below:

[FLOW CHART]

[ ] - denotes a business entity.
o - denotes an operating division or line of business.

For the twelve months ended December 31, 1998, 1997 and 1996, respectively, the Company derived operating revenues and income/(loss) from operations in the following proportions:

	Operating Revenues			Gross Margins			Income/(Loss) from Operations (pre-tax)		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Energy Delivery	11%	29%	40%	70%	69%	67%	68%	60%	48%
Generation and Resources	18%	39%	45%	18%	27%	33%	15%	34%	45%
National Energy Trading and Marketing	65%	19%	--	12%	4%	0%	12%	1%	(1%)
Non-energy	6%	13%	15%	N/A	N/A	N/A	5%	5%	8%

N/A - Not Applicable
Gross margin is calculated by subtracting resource costs from operating revenues. (See Schedule of Information by Business Segments for further information).

ENERGY DELIVERY

GENERAL

Energy Delivery provides electricity and natural gas distribution and transmission services in a 26,000 square mile area in eastern Washington and northern Idaho with a population of approximately 825,000. Energy Delivery also provides natural gas service in a 4,000 square mile area in northeast and southwest Oregon and in the South Lake Tahoe region of California, with the population in these areas approximating 495,000.

At the end of 1998, retail electric service was supplied to approximately 305,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 262,000 customers in parts of Washington, Idaho, Oregon and California.

The Company expects economic growth to continue in its eastern Washington and northern Idaho service area. The Company, along with others in the service area, is continuing its efforts to facilitate expansion of existing businesses and attract new businesses to the Inland Northwest. Agriculture, mining and lumber were the primary industries for many years, but health care, education, electronic and other manufacturing, tourism and the service sectors have become increasingly important industries that operate in the Company's service area. The Company also anticipates moderate economic growth to continue in its Oregon service area.

The Company anticipates residential and commercial electric load growth to average approximately 2.3% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis.

The Company anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.7% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.1% growth annually during that same period. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Future Outlook for additional information.

ELECTRIC OPERATIONS

Energy Delivery currently receives all of its electric supply from Generation and Resources. (See Generation and Resources - Electric Resources for additional information.)

Challenges facing the retail electric business include cost management, self-generation and fuel switching by commercial and industrial customers, the costs of increasingly stringent environmental laws and the potential for stranded or non-recoverable utility assets. In April 1996, the Federal Energy Regulatory Commission (FERC) issued Orders No. 888 and No. 889 which require electric utility companies to provide third-party access to their transmission systems and to establish an Open Access Same-time Information System (OASIS) to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. In addition, state legislatures in the Company's service territory are continuing to evaluate restructuring the retail electric business to full competition. When electric utility companies are required to provide retail wheeling service, which is the transmission of electric power from another supplier to a customer located within such utility's service area, the Company believes it will face minimal risk for stranded generation, transmission or distribution assets due to its low cost structure. However, the Company cannot predict the potential impact, if any, of restructuring the electric utility industry on the Company's future financial condition and results of operations. (See Industry Restructuring and Note 1 of Notes to Financial Statements for additional information.)

NATURAL GAS OPERATIONS

Natural gas remains competitively priced compared to alternative fuel sources for residential, commercial and industrial customers. Because of abundant supplies and competitive markets, natural gas should sustain its market advantage. The Company continues to advise electric customers as to the cost advantages of converting space and water heating needs to natural gas. Significant growth has occurred in the Company's natural gas business in recent years due to increased demand for natural gas in new construction. The Company also makes sales and provides transportation service directly to large natural gas customers and makes non-retail sales to marketers and producers where points of delivery are outside the Company's retail distribution area.

Most of the Company's large industrial customers purchase their own natural gas requirements through gas marketers. For these customers, the Company provides transportation from the Company's pipeline interconnection to the customer's plant. The Company has numerous special contracts for natural gas transportation service, most of which contain negotiated rates for Company distribution service based on the customer's competitive alternatives. Seven of the Company's largest natural gas customers are provided natural gas transportation service by the Company under special contracts. These negotiated contracts were entered into to retain these customers who can either by-pass the Company's distribution system or have competitive alternative fuel capability. All special contracts are subject to regulatory review and approval. The competitive nature of the spot natural gas market results in savings in the cost of purchased natural gas, which encourages large customers with fuel-switching capabilities to continue to utilize natural gas for their energy needs. The total volume transported on behalf of transportation customers for 1998, 1997 and 1996 was approximately 226.1, 245.1 and 237.9 million therms, which represented approximately 39%, 43% and 40% of the Company's total system deliveries. In addition, the Company sells firm transportation to third parties when it is not needed to serve the Company's customers.

NATURAL GAS RESOURCES

Natural Gas Supply A diverse portfolio of resources allows the Company to capture market opportunities that benefit the Company's natural gas customers. Natural gas supplies are available from both domestic and Canadian sources through both long- and short-term, or spot market, purchases. The Company holds capacity on six pipelines and owns natural gas storage facilities which allow the Company to optimize its available resources.

Firm natural gas supplies are purchased by the Company through negotiated agreements having terms ranging between one month and seven years. During 1998, approximately one-third of the Company's purchases were in the short-term market, with contracts on a month-to-month basis. Approximately 14% of the natural gas supply was obtained from domestic sources, with the remaining 86% from Canadian sources. Nearly all natural gas purchased from Canadian sources is contracted in U.S. dollar denominations, limiting any foreign currency exchange exposure. The Company does not consider Canadian natural gas supplies to be at greater risk of non-delivery than U.S. supplies.

The Company holds capacity on six natural gas pipelines, Northwest Pipeline Company (NWP), Pacific Gas Transmission (PGT), Paiute Pipeline (Paiute), Tuscarora Gas Transmission Company (Tuscarora), NOVA Pipeline, Ltd. (NOVA) and Alberta Natural Gas Co. Ltd. (ANG), which provide the Company access to both domestic and Canadian natural gas supplies. In 1998, the Company obtained gas from over 25 different suppliers.

The Company contracts with NWP for three types of firm service (transportation, liquefied natural gas storage and underground storage), with Paiute for firm transportation and liquefied natural gas storage and with PGT, Tuscarora, NOVA and ANG for firm transportation only.

Jackson Prairie Natural Gas Storage Project (Storage Project) The Company owns a one-third interest in the Storage Project, which is an underground natural gas storage field located near Chehalis, Washington. The role of the Storage Project in providing flexible natural gas supplies is increasingly important to the Company's natural gas operations. It enables the Company to place natural gas into storage when prices are low or to meet minimum natural gas purchasing requirements, as well as to withdraw natural gas from storage when spot prices are high or as needed to meet high demand periods. The Company is in the process of increasing the capacity at the Storage Project. The increased capacity will be optimized by Avista Energy for the next 10 years, and in return, Avista Energy will be responsible for the capital costs related to the project expansion. The Company has contracted to release some of its Storage Project capacity to two other utilities until 2000 and 2001, with a provision under one of the releases to partially recall the released capacity if the Company determines additional natural gas is required for its own system supply.

ENERGY DELIVERY REGULATORY ISSUES

The Company, as a regulated public utility, is currently subject to regulation by state utility commissions with respect to prices, accounting, the issuance of securities and other matters. The retail electric operations are subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC), the Idaho Public Utilities Commission (IPUC) and the Montana Public Service Commission (MPSC). The retail natural gas operations are subject to the jurisdiction of the WUTC, the IPUC, the Oregon Public Utility Commission (OPUC) and the California Public Utilities Commission (CPUC). The Company is also subject to the jurisdiction of the FERC for its (wholesale) natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

In each regulatory jurisdiction, the price the Company may charge for retail electric and natural gas services (other than specially negotiated retail rates for industrial or large commercial customers, which are subject to regulatory review and approval) is currently determined on a "cost of service" basis and is designed to provide, after recovery of allowable

operating expenses, an opportunity to earn a reasonable return on "rate base." "Rate base" is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for deferred taxes and other items (see Note 1 of Notes to Financial Statements for additional information about regulation, depreciation and deferred taxes). Over time, rate base is increased by additions to utility plant in service and reduced by depreciation of utility plant. As the energy business is restructured, traditional "cost of service" ratemaking may evolve into some other form of ratemaking. Rates for transmission services are based on the "cost of service" principles and are set forth in tariffs on file with the FERC. (See Industry Restructuring for additional information.)

General Rate Cases The Company's last general electric rate cases were effective in March 1987 for the State of Washington and September 1986 for the State of Idaho; both allowed a return on equity of 12.90%.

On December 18, 1998, the Company filed for a general electric rate increase of $14,223,000 or 11.56% with the IPUC. The Company is requesting a return on equity of 12.00%. An order is expected in the latter part of 1999. The Company anticipates filing for a retail increase in the State of Washington later in 1999.

On June 27, 1997, the Company filed a general natural gas rate increase of $7.87 million with the WUTC. A settlement agreement resulted in a $5 million, or 7.5%, increase effective January 1, 1998. Included in the settlement agreement was a stated return on equity of 10.75%. However, the agreements reached in the settlement do not set a precedent for future rate filings. The Company's last general natural gas rate cases involving litigated cost of capital resulted in allowed return on equity of 12.90% for the State of Washington, effective August 1990 and 12.75% for the State of Idaho, effective October 1989.

Power Cost Adjustment (PCA) The Company has a PCA in Idaho which tracks changes in hydroelectric generation, surplus energy prices, related changes in thermal generation and the Public Utility Regulatory Policies Act of 1978 (PURPA) contracts, but not changes in revenues or costs associated with other wheeling or power contracts. Rate changes are triggered when the deferred balance reaches $2.2 million, provided no more than two surcharges or rebates are in effect at the same time. See Note 1 of Notes to Financial Statements for additional information.

Service Territory Agreement In August 1998, the Company executed a new electric service territory agreement with Inland Power and Light Company. Inland Power and Light is an electric cooperative serving approximately 30,000 customers in various suburban and rural areas of Eastern Washington, including areas around Spokane. The Company had an existing service territory agreement with Inland Power and Light that was due to expire in December 1998. The Company entered into the new agreement in order to protect service provided to existing customers and to establish rules for service to new customers. Under the agreement, generally, the utility with the closest electric facilities will serve a new customer. However, new customers with loads larger than 3 megawatts can choose their service provider. The agreement is for a fifteen year term and was approved by the WUTC on October 9, 1998.

Purchased Gas Adjustment (PGA or Natural Gas Trackers) Natural gas trackers are supplemental tariffs filed with state regulatory commissions which are designed to pass through changes in purchased natural gas costs and therefore, do not normally result in any changes in net income to the Company. On September 30, 1998, the Company filed a PGA with the WUTC. This filing requested a net revenue reduction of $42,000 or .06%. On December 1, 1998, a modified version of the original filing became effective with rates subject to change based on the WUTC's continuing audit. In January 1999, the audit was concluded with no adjustment to rates, and in February 1999, the Commission closed the investigation. In November 1998, the OPUC approved a $1.1 million, or 2.25% decrease effective December 1, 1998. In October 1998, the Company filed a natural gas tracker with the IPUC requesting a $1.1 million, or 4.0%, increase which was approved, effective December 7, 1998.

Natural Gas Benchmark Mechanism
On December 1, 1998, the Company filed a proposal with the WUTC and IPUC to eliminate gas procurement operations within Avista Utilities and consolidate gas procurement operations under Avista Energy. A smaller natural gas staff would remain in Avista Utilities to prepare load forecasts and support regulatory activities. The ownership of the natural gas assets would remain with Avista Utilities, but would be managed by Avista Energy through an agency agreement.

Consolidation of natural gas procurement operations under Avista Energy would allow the Company to gain synergies and better manage its risk by combining and operating the two portfolios as one portfolio and to gain efficiencies by eliminating duplicate functions. The proposal to state regulators includes a Gas Benchmark mechanism that is designed to provide certain guaranteed benefits to retail customers as well as provide Avista Corp. the opportunity to improve earnings, i.e., a performanced-based mechanism.

The Idaho Gas Benchmark mechanism sets three separate benchmarks or targets: commodity, pipeline capacity and Jackson Prairie storage. To the extent that Avista Energy optimizes these three components of gas costs, Avista Energy will retain the benefits. Likewise, if Avista Energy incurs costs in excess of the targets, it will absorb the loss.

The Gas Benchmark Mechanism was approved by the IPUC on February 1, 1999. The proposal is currently pending before the WUTC and the Company is currently working with WUTC staff to resolve issues in the proceeding. The Company is preparing a similar proposal for its Oregon natural gas procurement operations. The Company plans to file with the OPUC in March 1999.

ENERGY DELIVERY OPERATING STATISTICS

	Years Ended December 31,		
	1998	1997	1996
RETAIL ELECTRIC OPERATIONS			
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Residential	$ 157,019	$ 160,411	$ 160,345
Commercial	149,767	144,952	144,717
Industrial	64,662	58,391	62,067
Public street and highway lighting	3,387	3,352	3,359
Total retail electric revenue	374,835	367,106	370,488
Transmission revenues	19,455	19,503	11,907
Other revenues	6,636	8,685	6,740
Transfer to Generation and Resources(1)	(184,381)	(180,544)	(180,018)
Total electric energy delivery revenues	$ 216,545	$ 214,750	$ 209,117
ELECTRIC ENERGY SALES (Thousands of MWhs):			
Residential	3,217	3,270	3,220
Commercial	2,810	2,716	2,674
Industrial	1,878	1,759	1,839
Public street and highway lighting	24	24	24
Total retail energy sales	7,929	7,769	7,757
ELECTRIC AVERAGE HOURLY LOAD (aMW)	971	954	973
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Residential	265,891	261,873	257,726
Commercial	34,407	33,681	33,043
Industrial	1,169	1,145	1,133
Public street and highway lighting	383	371	363
Total retail electric customers	301,850	297,070	292,265
ELECTRIC RESIDENTIAL SERVICE AVERAGES:			
Annual use per customer (KWh)	12,099	12,489	12,493
Revenue per KWh (in cents)	4.88	4.90	4.98
Annual revenue per customer	$ 590.54	$ 612.55	$ 622.15
NATURAL GAS OPERATIONS			
NATURAL GAS OPERATING REVENUES (Thousands of Dollars):			
Residential	$ 92,614	$ 81,855	$ 85,904
Commercial	49,539	42,731	51,006
Industrial - firm	3,685	3,563	3,949
Industrial - interruptible	1,639	512	1,131
Total retail natural gas revenues	147,477	128,661	141,990
Non-retail sales	24,846	19,559	9,862
Transportation	12,100	12,678	12,154
Other revenues	8,715	4,884	7,305
Total natural gas energy delivery revenues	$ 193,138	$ 165,782	$ 171,311
THERMS DELIVERED (Thousands of Therms):			
Residential	187,571	182,037	183,927
Commercial	122,263	118,494	132,744
Industrial - firm	11,494	12,509	12,757
Industrial - interruptible	6,053	3,217	4,174
Total retail sales	327,381	316,257	333,602
Non-retail sales	126,522	105,297	67,656
Transportation	226,139	245,139	237,894
Interdepartmental sales and Company use	32,647	2,087	22,215
Total therms - sales and transportation	712,689	668,780	661,367

(1) Transfer to Generation and Resources represents the portion of revenues collected by Energy Delivery from retail customers attributable to the sale of the electric energy commodity delivered by Energy Delivery.

	Years Ended December 31,		
	1998	1997	1996
SOURCES OF NATURAL GAS SUPPLY (Thousands of Therms):			
Purchases	491,100	431,646	422,194
Storage - injections	(32,023)	(31,288)	(26,260)
Storage - withdrawals	32,917	22,183	24,572
Natural gas for transportation	226,139	245,139	237,894
Distribution system gains (losses)	(5,444)	1,100	2,967
Total supply	712,689	668,780	661,367
NET SYSTEM MAXIMUM CAPABILITY (Thousands of Therms):			
Net system maximum demand (winter)	3,284	3,134	3,273
Net system maximum firm contractual capacity (winter)	4,220	4,220	4,210
NUMBER OF NATURAL GAS CUSTOMERS (Average for Period):			
Residential	226,165	214,927	203,245
Commercial	28,236	27,171	25,747
Industrial - firm	310	306	300
Industrial - interruptible	26	25	28
Total retail customers	254,737	242,429	229,320
Non-retail sales	19	17	7
Transportation	119	111	93
Total natural gas customers	254,875	242,557	229,420
NATURAL GAS RESIDENTIAL SERVICE AVERAGES:			
Washington and Idaho			
Annual use per customer (therms)	861	927	1,007
Revenue per therm (in cents)	44.97	40.44	41.90
Annual revenue per customer	$ 387.17	$ 374.90	$ 421.91
Oregon and California			
Annual use per customer (therms)	772	703	724
Revenue per therm (in cents)	58.32	55.71	58.55
Annual revenue per customer	$ 450.13	$ 391.56	$ 424.00
HEATING DEGREE DAYS: (1)			
Spokane, WA			
Actual	5,951	6,510	7,477
30 year average	6,842	6,842	6,842
% of average	87%	95%	109%
Medford, OR			
Actual	4,421	4,144	4,088
30 year average	4,611	4,611	4,611
% of average	96%	90%	89%
INCOME FROM ENERGY DELIVERY OPERATIONS (After tax)	$ 86,676	$ 77,788	$ 64,345

(1) Heating degree days are the measure of the coldness of weather experienced, based on the extent to which the average of high and low temperatures for a day falls below 65 degrees Fahrenheit (annual degree days below historic average indicate warmer than average temperatures).

GENERATION AND RESOURCES

GENERAL

The Generation and Resources line of business manages the Company's natural gas and electric energy resource portfolio, which is used to serve Energy Delivery's retail customers and Generation and Resources' wholesale customers. The primary business focus of Generation and Resources is to optimize the availability and operation of generation resources. The Company owns and operates eight hydroelectric projects, a wood-waste fueled generating station and two natural gas combustion turbine (CT) peaking units. See Item 2. Properties Generation and Resources for additional information. The Company also owns a 15% share in two coal-fired generating facilities and leases two additional gas CT peaking units. With this diverse energy resource portfolio, the Company remains one of the nation's lowest-cost producers and sellers of electric energy services.

The Company's wholesale marketing and trading business units within the Generation and Resources line of business are a secondary, but very important part of the Company's overall business strategy. Since 1987, the Company has entered into a number of long-term power sales contracts that have increased its wholesale electric revenues, and the Company is continuing to actively pursue electric wholesale marketing and energy trading business opportunities. Energy trading includes short-term sales and purchases such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Wholesale sales are affected by weather and streamflow conditions and may eventually be affected by the restructuring of the electric utility industry. (See Industry Restructuring for additional information.)

Generation and Resources competes in the wholesale electric market with other western utilities, federal marketing agencies and power marketers. The Company's participation in the wholesale electric market allows the Company to maintain presence in and knowledge of the market, resulting in maximum optimization of the Company's resources. The wholesale electric market has changed significantly over the last few years with respect to market participants, level of activity, variability of prices, and per-unit margins. These changes have contributed to the increased liquidity of the market, which in turn has increased transactional volumes in the market. It is expected that competition in the wholesale power market will remain vigorous.

Challenges facing Generation and Resources include evolving technologies, which provide alternate energy supplies and deregulation of the retail electric market. The Company believes it faces minimal risk for stranded generation assets resulting from deregulation due to its low cost generation portfolio. However, in a deregulated environment, evolving technologies which provide alternate energy supplies could affect the market price of power, and certain generating assets could have operating costs above the adjusted market price. The Company continues to assess the costs and operation of its generation portfolio in order to optimize the resources of the Company.

ELECTRIC REQUIREMENTS

The Company's 1998 annual peak requirements, including long-term and short-term contractual obligations, were 4,765 MW. This peak occurred on December 21, 1998, at which time the maximum capacity available from the Company's generating facilities, including long-term and short-term purchases, was 4,991 MW. The electric requirements include both Energy Delivery's electric needs and Generation and Resources' wholesale short-term and long-term commitments, which limits the amount of excess capacity available to support Generation and Resources energy trading business.

ELECTRIC RESOURCES

The Company's diverse resource mix of hydroelectric projects, thermal generating facilities and power purchases and exchanges, combined with strategic access to regional electric transmission systems, enables the Company to remain one of the nation's lowest-cost producers and sellers of electric energy services. At December 31, 1998, the Company's total owned resources available were 58% hydroelectric and 42% thermal. See Generation and Resources Operating Statistics on page 13 for the Company's energy resource statistics.

Hydroelectric Resources Hydroelectric generation is the Company's lowest cost source of electricity and the availability of hydroelectric generation has a significant effect on the Company's total energy costs. Under average operating conditions, the Company meets about one-third of its total energy requirements (both retail and long-term wholesale), with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to Company-owned hydroelectric projects were 94%, 172% and 145% of normal in 1998, 1997 and 1996, respectively. Total hydroelectric resources provide 524 aMW annually.

Thermal Resources The Company has a 15% interest in each of two twin-unit coal-fired facilities - the Centralia Power Plant in western Washington and Units 3 and 4 of the Colstrip Generating Project in southeastern Montana. In addition, the Company owns a wood-waste-fired facility known as the Kettle Falls Generating Station in northeastern Washington and two natural gas-fired CTs, located in Spokane, used for peaking needs. The Company also operates and leases two natural gas-fired CTs in northern Idaho, used for peaking needs. Total thermal resources provide 339 aMW annually.

Centralia, which is operated by PacifiCorp, is supplied with coal under both a fuel supply agreement in effect through December 2020 and various spot market purchases. In 1998, 1997 and 1996, Centralia provided approximately 37%, 38% and 46%, respectively, of the Company's thermal generation. (See Environmental Issues for additional information.)

Colstrip is supplied with fuel under coal supply and transportation agreements in effect through December 2019 from adjacent coal reserves. The Montana Power Company is the operator of Colstrip. In 1998, 1997 and 1996, Colstrip provided approximately 46%, 47% and 34% of the Company's thermal generation, respectively.

Kettle Falls' primary fuel is wood-waste generated as a by-product from forest industry operations within one hundred miles of the plant. Natural gas may be used as an alternate fuel. A combination of long-term contracts plus spot purchases provides the Company the flexibility to meet expected future fuel requirements for the plant. In 1998, 1997 and 1996, Kettle Falls provided approximately 9%, 11% and 10% of the Company's thermal generation, respectively.

The four CTs are natural gas-fired units, primarily used for peaking needs. Two CTs have access to domestic and Canadian natural gas supplied through PGT. In 1998, 1997 and 1996, these four units provided approximately 8%, 4% and 10%, respectively, of the Company's thermal generation. Thermal generation from CTs during 1997 was lower than other years primarily due to the cost of natural gas as compared to alternative energy supplies.

Purchases, Exchanges and Sales In 1998, the Company had various long-term purchase contracts with non-coincidental peak (peak that does not occur during the same hour) equating to 457 MW, with an average remaining life of 5.3 years. Additionally, long-term hydro purchase contracts of 197 MW peak were available with an average remaining contract life of 12.8 years. The Company also enters into a significant number of short-term sales and purchases with durations of up to one year. Energy purchases and exchanges for the years 1998, 1997 and 1996 provided approximately 70%, 65% and 54%, respectively, of the Company's total electric energy requirements, which reflects increased wholesale trading and resource optimization activity.

Under PURPA, the Company is required to purchase generation from qualifying facilities, including small hydroelectric and cogeneration projects, at avoided cost rates adopted by the WUTC and the IPUC. The Company purchased approximately 563,000 MWH, or about 2% of the Company's total energy requirements, from these sources at a cost of approximately $27 million in 1998. These contracts expire in 1999-2022.

HYDROELECTRIC RELICENSING

The Company is a licensee under the Federal Power Act, which regulates certain of the Company's generation resources and is administered by the FERC, and its licensed projects are subject to the provisions of Part I of that Act. These provisions include payment for headwater benefits, condemnation of licensed projects upon payment of just compensation and take-over of such projects after the expiration of the license upon payment of the lesser of "net investment" or "fair value" of the project, in either case plus severance damages. All but one of the Company's hydroelectric plants are regulated by the FERC through project licenses issued for 30-50 year periods. See Item 2. Properties - Generation and Resources for additional information.

The Cabinet Gorge and Noxon Rapids plants are currently in the process of relicensing with licenses expiring February 2001. The Company filed a Notice of Intent to relicense in 1996 and has since consulted with resource agencies, Native American tribes, special interest groups and the general public regarding its relicensing.

The Company's approach to relicensing departed significantly from the conventional FERC process. Early FERC involvement and Environmental Impact Statement scoping occurred prior to the application and the consultation process was expanded to a comprehensive collaborative process including all stakeholders. The collaborative process used by the Company is nationally recognized as the model for FERC's alternative approach to relicensing.

The Company reached a settlement agreement with all parties on January 28, 1999 that resolved all environmental, tribal, and operational issues regarding relicensing of Cabinet Gorge and Noxon Rapids. As part of the agreement, Avista Corp. committed to early implementation of protection, mitigation, and enhancement measures beginning in March 1999. Measures in the agreement which will cost approximately $4.7 million annually, address fisheries, water quality, wildlife, recreation, land use, cultural resources and erosion, and represents the results of studies and interests of over 40 organizations and 100 individuals. See Item 2. Properties - Generation and Resources and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

The license application for Cabinet Gorge and Noxon Rapids was filed with FERC on February 18, 1999 and included the settlement agreement signed by 27 parties and a collaboratively written environmental assessment report. For hydroelectric projects of this size, it is unprecedented to have reached settlement two years before the license expires, while preserving the projects economic peaking and load following operations.

GENERATION AND RESOURCES REGULATORY ISSUES

The Company, with respect to Generation and Resources, is subject to the jurisdiction of the FERC for its accounting procedures and its wholesale electric rates. Some wholesale electric rates are determined on a "cost-of-service" basis in a

manner similar to retail rates. See Energy Delivery - Regulatory Issues for additional information. Generally, rates for wholesale electric sales by the Company for terms up to five years are based on market prices.

GENERATION AND RESOURCES OPERATING STATISTICS

	Years Ended December 31,		
	1998	1997	1996
ELECTRIC ENERGY RESOURCES (Thousands of MWhs):			
Hydro generation (from Company facilities) ...	3,860	4,863	5,045
Thermal generation (from Company facilities) .	3,522	2,627	2,764
Purchased power - long-term hydro	910	1,212	1,170
Purchased power - other	19,405	16,038	10,641
Power exchanges	26	178	102
Total power resources	27,723	24,918	19,722
Energy losses and Company use	(579)	(739)	(790)
Total energy resources (net of losses) ...	27,144	24,179	18,932
ELECTRIC ENERGY REQUIREMENTS (Thousands of MWhs):			
Energy Delivery	7,929	7,769	7,757
Long-term wholesale	3,680	4,307	4,507
Short-term wholesale	15,535	12,103	6,668
Total energy requirements	27,144	24,179	18,932
RESOURCE AVAILABILITY at time of system peak (MW):			
Total requirements (winter) (1)	4,765	4,226	3,180
Total resource availability (winter)	4,991	4,684	3,340
Total requirements (summer) (2)	5,093	4,345	2,978
Total resource availability (summer)	5,340	4,766	3,357
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Long-term wholesale	$ 102,189	$ 138,730	$ 139,116
Short-term wholesale	349,674	187,190	91,443
Other revenues	3,285	4,669	7,989
Transfer from Energy Delivery (3)	184,381	180,544	180,018
Total electric energy trading revenues ...	$ 639,529	$ 511,133	$ 418,566
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Wholesale customers	85	91	60
INCOME FROM GENERATION AND RESOURCES OPERATIONS (After tax)	$ 21,148	$ 47,737	$ 65,048

(1) Includes long-term contract obligations of 663 MW, 1,022 MW and 744 MW and 2,401 MW, 1,688 MW and 725 MW of short-term sales in 1998, 1997 and 1996, respectively.

(2) Includes long-term contract obligations of 780 MW, 1,011 MW and 839 MW in 1998, 1997 and 1996, respectively, and short-term sales of 2,792 MW, 1,966 MW and 739 MW in 1998, 1997 and 1996, respectively.

(3) Transfer from Energy Delivery represents the portion of revenues collected by Energy Delivery from retail customers attributable to the sale of the electric energy commodity delivered by Energy Delivery.

NATIONAL ENERGY TRADING AND MARKETING

The companies within the National Energy Trading and Marketing line of business are Avista Energy, Avista Advantage and Avista Power, each of which is a wholly-owned subsidiary of Avista Capital. Avista Capital's total equity investment in this line of business was approximately $104.6 million on December 31, 1998.

Avista Energy

Avista Energy is one of the nation's fastest growing electricity and natural gas marketing and trading companies. Avista Energy's headquarters are in Spokane, Washington with offices in Houston, Texas; Boston, Massachusetts; Vancouver, British Columbia, Canada; and Portland, Oregon. Avista Energy is in the business of buying and selling natural gas and electricity. Avista Energy purchases natural gas and electricity directly from producers and other trading companies, and Avista Energy's customers include commercial and industrial end-users, electric utilities, natural gas distribution companies and other trading companies. Avista Energy also trades natural gas and electricity derivative financial instruments, including futures, options, swaps and other contractual arrangements on national exchanges and through other unregulated exchanges and brokers from whom these commodity derivatives are available. In 1998, Avista Energy sold approximately 54.4 million MWh of electric energy and 424.2 million dekatherms of natural gas. This compares with approximately 4.5 million MWh of electric energy and 67.3 million dekatherms of natural gas during five months of operations in 1997.

Avista Energy's business is affected by several factors, including:

- the demand for and availability of energy throughout the United States,
- lower unit margins on new sales contracts,
- fewer long-term power contracts being entered into, resulting in a heavier reliance on short-term power contracts which have lower margins than long-term contracts,
- marginal fuel prices, and
- deregulation of the electric utility industry

Avista Energy operates in North America, principally within the West and Mid-West United States and Western Canada. Avista Energy seeks to strengthen its position of leadership in energy trading and marketing on a regional and national basis through a focus on acquisitions and strategic alliances. Avista Energy has entered new markets throughout North America, and will continue to strategically acquire additional assets and customers.

Effective February 1, 1999, Avista Energy purchased Vitol Gas & Electric, LLC, one of the top 20 energy marketing companies in the United States. With this acquisition, Avista Energy now has an additional platform from which it can further grow its national presence. The combined operation expands Avista Energy's successful coast-to-coast commercial energy platform to the eastern seaboard.

On December 16, 1998, Avista Energy Canada, Ltd., a wholly-owned subsidiary of Avista Energy, acquired Coast Pacific Management, Inc. (Coast Pacific), a natural gas marketing company based in Vancouver, British Columbia, Canada. Coast Pacific manages and transports approximately 70,000 MMBtu of natural gas per day to some 70 large and medium size industrial customers throughout British Columbia. Coast Pacific acts as gas manager for more than 40 percent of the large industrial market in the interior of British Columbia. The Coast Pacific acquisition strengthened Avista Energy's Canadian operations with more access to end-use customers, ties with British Columbia natural gas producers and expanded Avista Energy's presence in Pacific Northwest natural gas markets.

In April 1997, Avista Energy contracted with Chelan County Public Utility District (Chelan PUD), located in Washington State. The terms of the alliance made this announcement the first of its kind in the Northwest. The agreement allows the Company to market, on a "real-time" basis, a portion of the significant output from Chelan PUD's hydroelectric resources and to jointly market energy products and services to other utilities in the region. Twenty-eight percent or 557 megawatts of total generated capacity of the dams are available for real-time scheduling and resource optimization. The two entities offer a variety of products, all designed to help smaller utilities adjust to the emerging energy market. On October 20, 1997, a complaint for declaratory and injunctive relief was filed in Chelan County Superior Court by James A. Brown, a taxpayer and ratepayer of the District, in order to determine whether the joint marketing and real-time scheduling efforts of Chelan PUD and Avista Energy are within Chelan PUD's lawful authority to undertake. Avista Energy and Chelan PUD continue to operate under the contractual alliance. The outcome of this litigation is still pending and Avista Energy is unable to assess the likelihood of an adverse outcome or estimate an amount or range of potential loss in the event of an adverse outcome.

In June 1997, Avista Energy formed an alliance with Energy West Incorporated, a diversified energy and retail propane company in Montana, to develop and implement a direct access, retail power marketing business in Montana. The alliance has not been active since its formation and both companies have agreed to discontinue the alliance in 1999.

Effective November 30, 1998, Avista Energy sold its 50% ownership interest in Howard/Avista Energy, LLC to H&H Star Energy, Inc. The sales price, which represented Avista Energy's equity investment, was $25 million in the form of a short term unsecured note receivable from H&H Star Energy, Inc. The Note is guaranteed by H&H Star Energy, Inc.'s parent

company, Howard Publications, Inc and is due April 30, 1999.

In 1997, Avista Energy entered into a contract with Mock Energy Services to form Avista/Mock Energy, LLC to provide integrated energy services to customers throughout the state of California. Avista Energy agreed to the dissolution of Avista/Mock Energy, LLC and affairs were wound up November 30, 1998. Avista/Mock Energy, LLC conducted no business. All related costs of this investment were recognized in 1998.

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). Power marketers, whether or not affiliated with other entities, generally do not own production facilities and are not subject to net capital or other requirements of any regulatory agency.

Avista Energy is subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: National Energy Trading and Marketing Operations and Notes 1, 3 and 4 of Notes to Financial Statements for additional information regarding the market and credit risks inherent in the energy trading business, the Company's and Avista Energy's risk management policies and procedures, accounting practices and positions held at December 31, 1998.

Avista Advantage

Avista Advantage is a leading provider of Internet-based specialty billing and information services. Avista Advantage has established itself as a leader in the development and implementation of customer-focused, non-traditional energy solutions.

Avista Advantage has developed a distinctive line of services that starts with a proprietary customer information system. The system impacts the customer's bottom line by providing four valuable tools in one: a consolidated billing tool; an accounting/auditing tool; an energy management tool; and a deregulation tool. Avista Advantage conveniently delivers all of these services through the Internet using the ACIS (Advantage Customer Internet Site) system. The ACIS product creates a flexible paperless reporting system. Avista Advantage offers consolidated bill payment and analytical services for customers' maintenance and repair bills. Avista Advantage is the only company in the energy services industry to offer its customers this service.

Avista Power

Avista Power was created in December 1998 to develop and own generation assets, primarily in support of Avista Energy's commodity trading activities. Avista Power and Cogentrix Energy, Inc. have entered into an agreement to jointly build and/or buy interests in natural gas-fired electric generation plants in the Pacific Northwest states of Washington, Oregon and Idaho. The first project under the new agreement is an approximately 270 megawatt facility to be located in Rathdrum, Idaho. The total cost of the project is estimated at $150 million; Avista Power's share of the costs is approximately $75 million.

NATIONAL ENERGY TRADING AND MARKETING OPERATING STATISTICS

	Years Ended December 31,	
	1998	1997
AVISTA ENERGY		
REVENUES (Thousands of Dollars):		
Natural gas marketing	743,386	135,684
Electric power marketing	1,665,348	111,344
Total revenues	2,408,734	247,028
VOLUMES:		
Natural gas (Thousands of Therms)	424,152	67,319
Electricity (Thousands of MWhs)	54,430	4,540

NON-ENERGY BUSINESS

Pentzer, which is a wholly-owned subsidiary of Avista Capital, is the dominant company in the Non-energy line of business. At December 31, 1998, Avista Capital's total equity investment in this line of business was approximately $167.2 million, of which $140.1 million related to Pentzer.

Pentzer

Pentzer is the parent company for a majority of Avista Corp.'s non-utility subsidiaries. Pentzer's portfolio of investments includes companies involved in consumer product promotion, store fixtures, specialty tool manufacturing, metal fabrication, financial services and electronic technology.

Pentzer's current investment profile focuses on manufacturers and distributors of industrial and consumer products as well as service businesses. The Company seeks businesses with above average records of earnings growth in industries that are not cyclical or dependent upon high levels of research and development. Emphasis is placed on leading companies with strong market franchises, dominant or proprietary product lines or other significant competitive advantages. Pentzer is particularly interested in companies serving niche markets. Total equity investment in any one company is generally limited to $15 million, and control of the acquired company's board of directors is generally required.

Pentzer's business strategy is to acquire controlling interest in a broad range of middle-market companies, to help these companies grow through internal development and strategic acquisitions, and to sell the portfolio investments either to the public or to strategic buyers when it becomes most advantageous in meeting Pentzer's return on invested capital objectives. Pentzer's goal is to produce financial returns for the Company's shareholders that, over the long-term, should be higher than that of the utility operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies. Accordingly, although the income stream is expected to be positive, it is not predictable from year to year and may be uneven.

Other Non-Energy Companies

Other non-energy subsidiaries under Avista Capital include Avista Development, Avista Labs, Avista Communications and Avista Fiber. Avista Development manages and markets the corporation's community investments, including real-estate and other assets. Avista Labs develops fuel cells and multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem. In September 1998, Avista Labs was awarded a $2.0 million technology development grant from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program to fund continuing research in alternate power solutions. Avista Communications, formed in January 1999, is the newest of the non-energy subsidiaries. It will provide local high-speed telecommunications services to under-served Northwest communities. Avista Communications is a sister company to Avista Fiber, which focuses on building high-speed local dark fiber networks in Northwest communities.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Non-Energy Operations and Notes 1 and 21 of Notes to Financial Statements for additional information.

INDUSTRY RESTRUCTURING

FEDERAL LEVEL

Industry restructuring to remove certain barriers to competition in the electric utility industry was initially promoted by federal legislation. The Energy Policy Act of 1992 (Energy Act) confers expanded authority upon the FERC to issue orders requiring electric utilities to transmit power and energy to or for wholesale purchasers and sellers, and to require electric utilities to enlarge or construct additional transmission capacity for the purpose of providing these services.

The FERC issued its final rule in Order No. 888 in April 1996. That order requires public utilities operating under the Federal Power Act to provide access to their transmission systems to third parties pursuant to the terms and conditions of the FERC's pro-forma open access transmission tariff. Utilities were required to file an open access tariff, allowing only limited variations to the pro-forma tariff to reflect regional operating practices. Utilities were also required to take transmission service under this same tariff. The Company filed its open access tariff with the FERC in July 1996 and subsequently began providing transmission service under the tariff. The FERC issued its initial order accepting the non-rate terms and conditions of the Company's tariff in November 1996.

In the FERC's Order No. 889, the companion rule to Order No. 888, the FERC required public utilities to establish a system, OASIS, to provide transmission customers with information about available transmission capacity, prices and other information, by electronic means. This enables customers to obtain transmission service in a non-discriminatory fashion. The final rule requires each public utility subject to the rule to functionally separate its transmission and wholesale power merchant functions, and prescribed standards of conduct under which it assures that the utility's wholesale power merchant function and competitors obtain information about its transmission system in the same manner. The Company filed its "Procedures for Implementing Standards of Conduct under FERC Order No. 889" with the FERC in December 1996 and adopted these Procedures effective January 3, 1997. FERC Orders No. 888 and No. 889 have not had a significant material effect on the operating results of the Company.

The Company and various Northwest utilities began investigating the feasibility of transferring certain operational responsibilities associated with a regional transmission grid to an independent grid operator. In November 1997, the Company withdrew from the effort to establish an independent grid operator in the Northwest because the costs were greater than the perceived benefits. The Company is exploring other regional transmission alternatives intended to help facilitate a competitive electric power market, including the development of an independent grid scheduling entity which might provide quantifiable efficiencies in administering access to the Northwest transmission system in a non-discriminatory fashion.

The North American Electric Reliability Council and the WSCC have undertaken initiatives to establish a series of security coordinators to oversee the reliable operation of the regional transmission system. Accordingly, the Company, in cooperation with other utilities in the Pacific Northwest, has established the Pacific Northwest Security Coordinator (PNSC) which will oversee daily and short-term operations of the northwest sub-regional transmission grid, and have limited authority to direct certain actions of control area operators in the case of a pending transmission system emergency. The Company executed its service agreement with the PNSC in September 1998. The PNSC is currently operating in a limited fashion and is expected to be fully operational by May 1999.

STATE LEVEL

Further competition may be introduced by state action. Competition for retail customers is not generally allowed in the Company's service territory. While the Energy Act precludes the FERC from mandating retail wheeling, state regulators and legislators could open service territories to full competition at the retail level. Legislative action at the state level would be required for full retail wheeling to occur in Washington and Idaho.

During 1997, the Idaho Legislature enacted legislation requiring the IPUC to compile utilities' costs separately by generation, transmission and distribution. Early in 1998, the IPUC opened individual cases for each of the investor owned utilities and pursued audits of their cost of service studies, including results of operations, methodology, and allocations. In August 1998, the Commission ordered the cases closed, concluding that these studies met the legislative requirement and that further examination of unbundled costs would be more appropriate in general rate proceedings.

Two restructuring "study bills" were adopted in the 1998 Washington Legislative session covering examination of cost unbundling, development and disclosure of consumer protection policies, and studies of deregulation and system reliability. The first study bill, known as "ESSHB2831", was implemented by the WUTC as a collaborative effort, including stakeholders, to examine unbundling and related issues. Unbundling would require utilities to compile costs separately by generation, transmission and distribution. In September 1998, unbundled cost filings were submitted by Washington's investor-owned utilities and by various public utilities that met certain size or customer density parameters. The WUTC staff and the State Auditor jointly reviewed the studies and prepared a report presenting the results of the individual utilities' studies. The report was prepared in a format intended to allow the legislature

to analyze the potential impacts of restructuring and deregulation. The WUTC staff summary report did not include recommendations for restructuring, it merely presented pros and cons of restructuring on an issue by issue basis. From this, the legislature will determine whether or not to pursue changes in the laws governing the industry.

The second study bill "ESSB 6560" called for the examination of potential quality of service, public purposes (e.g. conservation) and reliability issues resulting from electric restructuring. The WUTC and the Washington Department of Community, Trade and Economic Development launched the study, which was intended to assist in the determination of appropriate reliability measures and the feasibility of statewide compliance standards. Direct recommendations to the legislature for implementation were not included, rather the focus was on a "macro" analysis of the utilities' existing operations and theoretical impacts on customer service quality and system reliability (generation, transmission, and distribution) under various restructuring scenarios.

In 1998, the WUTC closed its Electric Industry Restructuring Inquiry initiated in December 1995. The WUTC issued eight guiding principles including, a directive that future WUTC regulatory oversight will balance such issues as reliability, pricing responsive to customers needs and selected public policy concerns.

The Company has developed a model offering broader customer choice to small customers. The Portfolio Access Model (PA Model) was developed as a transition to full direct access. Under the PA Model, large-use customers would receive direct access; small-use customers would be provided a menu of services priced at market rates such as monthly and annual pricing, as well as optional "green rates" for renewable power. The PA Model has served as a regional proposal under discussion by legislative committees and work groups in Washington, Idaho and Oregon. More Options for Power Services II (MOPS II) is the Company's PA Model regulatory pilot. (See Experimental Programs below for additional information.)

On December 31, 1997, the Company filed an application for exemption from the California Public Utilities Commission's Affiliate Transaction Rules. These rules require that a utility's energy marketing affiliates follow detailed operating and reporting protocols as well as full separation from the regulated entity for any business activity in California. On January 20, 1999, the CPUC granted the Company a full exemption to these rules, providing that the Company complies with its voluntary agreement that none of its affiliates will participate in its South Lake Tahoe service territory. The Company will also provide periodic reports from an independent auditor verifying that its affiliates have not participated within this service territory.

EXPERIMENTAL PROGRAMS

To assess impacts of competition and customer choice, the Company implemented the following experimental programs: Direct Access and Delivery Service Tariff (DADS), More Options for Power Services (MOPS) tariff and More Options for Power Services II (MOPS II) tariff. The Company has received regulatory approval to defer all costs incurred from implementing the MOPS and MOPS II pilot programs. In each case, the Company may lose some margin. However, the Company experienced a margin gain of $250,000 in 1998, due to electric market prices.

Direct Access and Delivery Service Tariff (DADS) To proactively respond to the potential regulatory change of customer choice in the electric business, the Company filed the DADS tariff to better understand how customer choice could affect the Company and its large industrial customers. The Company concluded its Direct Access and Delivery Service pilot (DADS-Schedule 26) in August 1998, which was one of the first open-access pilots in the U.S. The pilot was a two-year experiment that allowed twenty-six of the Company's largest customers to purchase up to one-third of their energy requirements from an energy supplier other than Avista Corp. Ten of the fifteen eligible Washington customers and five of the eleven eligible Idaho customers participated in the pilot. The Company agreed to absorb any of the resulting lost margin on the commodity no longer supplied by the Company. The pilot provided useful information to the company, participants, suppliers and other interested parties. As echoed in the responses to the customer surveys, even many of the Company's largest customers are not ready to embrace an open-access environment because of concerns regarding reliability and potential price volatility.

More Options for Power Services (MOPS) A MOPS experimental tariff was filed in February 1997 with the WUTC and IPUC to help the Company assess the potential benefits of direct access for its electric residential and commercial customers and to collect information that will assist in the transition to customer choice for those classes of customers. The pilot allows only the customers in the towns of Odessa and Harrington, Washington to participate. This trial tariff is effective through June 30, 1999. Since its implementation date of July 1, 1997, 25% of the 980 eligible customers have elected Grant County PUD as their supplier. This represents a bill savings of approximately 6% - 10% to customers. Originally, six power marketers signed up to participate; all but Grant County PUD withdrew upon California's announcement of full direct access by January 1, 1998.

More Options for Power Services II (MOPS II) While MOPS allowed customers to purchase from alternative energy suppliers, MOPS II provides access to the Company's portfolio of traditional service, monthly market, annual market and renewable resource pricing. (See PA Model above for additional information.) Approximately 7,300 customers in the towns of Deer Park, Washington and Hayden, Idaho were able to elect alternative energy service from the Company as of July 1998. The Company received approval on this program on December 31, 1997 and January 27, 1998 from the WUTC and IPUC, respectively. This trial tariff is effective through mid-2000.

Avista Utilities' average production cost for a Washington residential customer is 2.37 cents/kWh. For customers to save money under MOPS II, the average monthly or annual market prices would need to be below this rate. During the first eight months of MOPS II implementation, electric market rates were above Avista Utilities' average retail rate in every month except February 1999. Thus, participation in the annual and monthly market options has been low, with only 69 customers. Participation in the renewable resource offerings was also low.

ENVIRONMENTAL ISSUES

The Company is subject to environmental regulation by federal, state and local authorities. The generation, transmission, distribution, service and storage facilities in which the Company has an ownership interest have been designed to comply with all environmental laws presently applicable. Furthermore, the Company conducts periodic reviews of all its facilities and operations to anticipate emerging environmental issues. The Company's Board of Directors has an Environmental Committee to deal specifically with these issues.

Air Quality. The Company continues to assess both the potential and actual impact of the 1990 Clean Air Act Amendments (CAAA) on the thermal generating plants in which it maintains an ownership interest. Centralia, which is operated by PacifiCorp, is classified as a "Phase II" coal-fired plant under the CAAA and, as such, will be required to reduce sulfur dioxide (SO2) emissions. Centralia is also impacted by "visibility impairment" issues related to Mt. Rainier National Park in southwestern Washington, which requires additional reductions in emissions. A RACT (Reasonably Available Control Technology) order was issued by SWAPCA (Southwest Washington Air Pollution Control Agency) which requires a reduction in SO2 emissions of approximately 90% by the year 2000. The standards in the RACT order were established by a collaborative decision-making group consisting of representatives from federal and state agencies and the plant owners. The owners of the Centralia project have collectively offered the plant for sale through an auction process. Bids are being accepted until April 19, 1999. Should the owners not accept any bid, the remaining options include bringing the units into compliance with provisions of the CAAA through adding scrubbers or some other SO2 removal process. Plant closure will be another option if economics prove it to be a viable option. The Company's estimated share of this option would be incurred over several years and is currently estimated to be $35 million of capital costs. These estimates of future obligations are included in the projected Total Company Cash Requirements in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Liquidity.

Colstrip, which is also a "Phase II" coal-fired plant and is operated by Montana Power, is not expected to be required to implement any additional SO2 mitigation in the foreseeable future in order to continue operations. Reduction in nitrogen oxides (NOX) will be required at both Centralia and Colstrip prior to the year 2000. The anticipated share of costs for NOX compliance are not expected to have a major economic impact on the Company.

The Company's other thermal projects also are subject to various CAAA standards. Every five years each project requires an updated operating permit (known as a Title V permit) which addresses, among other things, the compliance of the plant with the CAAA. The permit for the Spokane CTs was received in 1995. The permit for the Company's Kettle Falls plant was issued in 1996. The operating permit application for the Rathdrum CTs in northern Idaho received approval and was issued in 1997.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook and Note 20 to Financial Statements for additional information.

ITEM 2. PROPERTIES

ENERGY DELIVERY

Electric Distribution and Transmission Plant

The Company operates approximately 12,200 miles of primary and secondary distribution lines in its electric system in addition to a transmission system of approximately 550 miles of 230 kV line and 1,550 miles of 115 kV line. The Company also owns a 10% interest in 495 miles of a 500 kV line between Colstrip, Montana and Townsend, Montana, and a 15% interest in three miles of a 500 kV line from Centralia, Washington to the nearest Bonneville Power Administration (Bonneville) interconnection.

The 230 kV lines are used to transmit power from the Company's Noxon Rapids and Cabinet Gorge hydroelectric generating stations to major load centers in the Company's service area as well as to transfer power between points of interconnection with adjoining electric transmission systems. These lines interconnect with Bonneville at five locations and at one location each with PacifiCorp, Montana Power and Idaho Power Company. The Bonneville interconnections serve as points of delivery for power from the Colstrip and Centralia generating stations as well as for the interchange of power with entities outside the Pacific Northwest. The interconnection with PacifiCorp is used to integrate Mid-Columbia hydroelectric generating facilities to the Company's loads as well as for the interchange of power with entities within the Pacific Northwest.

The 115 kV lines provide for transmission of energy as well as providing for the integration of the Spokane River hydroelectric and Kettle Falls wood-waste generating stations with service area load centers. These lines interconnect with Bonneville at nine locations, Grant County Public Utility District (PUD), Seattle City Light and Tacoma City Light at two locations and one interconnection each with Chelan County PUD, PacifiCorp and Montana Power.

Natural Gas Plant

The Company has natural gas distribution mains of approximately 3,897 miles in Washington and Idaho and 1,755 miles in Oregon and California, as of December 31, 1998.

The Company, NWP and Puget Sound Energy each own a one-third undivided interest in the Storage Project, which has a total peak day deliverability of 5.7 million therms, with a total working natural gas inventory of 155.2 million therms.

GENERATION AND RESOURCES

The Company's electric generation properties, located in the States of Washington, Idaho and Montana, include the following:

Generating Plant	No. of Units	Nameplate Rating (MW)(1)	Present Capability (MW)(2)	Year of FERC License Expiration
Hydroelectric Generating Stations (River)				
Washington:				
Long Lake (Spokane)	4	70.0	83.0	2007
Little Falls (Spokane)	4	32.0	36.0	N/A
Nine Mile (Spokane)	4	26.4	29.0	2007
Upper Falls (Spokane)	1	10.0	10.2	2007
Monroe Street (Spokane)	1	14.8	14.8	2007
Meyers Falls (Colville)	2	1.2	1.3	2023(6)
Idaho:				
Cabinet Gorge (Clark Fork)	4	221.9	236.0	2001(3)
Post Falls (Spokane)	6	14.8	18.0	2007
Montana:				
Noxon Rapids (Clark Fork)	5	466.2	528.0	2001(3)
Total Hydroelectric		857.3	956.3	
Thermal Generating Stations				
Washington:				
Centralia(4)	2	199.5	201.0	
Kettle Falls	1	50.7	48.0	
Northeast (Spokane) CT(5)	2	61.2	69.0	
Idaho:				
Rathdrum CT(5)	2	167.0	176.0	
Montana:				
Colstrip (Units 3 and 4)(4)	2	233.4	222.0	
Total Thermal		711.8	716.0	
Total Generation Properties		1,569.1	1,672.3	

N/A Not applicable.

(1) Nameplate Rating, also referred to as "installed capacity", is the manufacturer's assigned power rating under specified conditions.

(2) Capability is the maximum generation of the plant without exceeding approved limits of temperature, stress and environmental conditions.

(3) The formal relicensing process began in September 1995 for Cabinet Gorge and Noxon Rapids. (See Generation and Resources - Hydroelectric Relicensing for additional information.)

(4) Jointly owned; data above refers to Company's respective 15% interests.

(5) Used primarily for peaking needs.

(6) Sold in early 1999.

ITEM 3. LEGAL PROCEEDINGS

In December 1996, the Company filed a Complaint for declaratory relief and money damages against Underwriters at Lloyds of London (Lloyds) in Spokane County Superior Court. The purpose of this action was to seek a declaration of the insurance policies issued to the Company by Lloyds with respect to any liabilities of the Company for environmental damage associated with the oil spill at the Central Steam Plant and other environmental remediation efforts. The policies at issue were in effect during the period between 1926 and 1966; thereafter, the Company maintained its policies with another underwriter, Aegis. The Company's Complaint sought money damages in excess of $16 million. On March 10, 1999, Avista Corp. and Lloyds signed a settlement agreement resolving the claim.

Refer to Note 20 of Notes to Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Future Outlook: Other for additional information on this and other legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Outstanding shares of Common Stock are listed on the New York and Pacific Stock Exchanges. As of February 26, 1999, there were approximately 23,758 registered shareholders of the Company's no par value Common Stock.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information about common stock dividends.

Refer to Notes 1 and 17 of Notes to Financial Statements for additional information. For high and low stock price information, refer to Note 23 of Notes to Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
	1998	1997	1996	1995	1994
	(Thousands of Dollars except Per Share Data and Ratios)				
Operating Revenues:					
Energy Delivery and Generation and Resources *	$ 1,041,716	$ 890,516	$ 798,994	$ 661,216	$ 608,067
National Energy Trading and Marketing	2,409,920	247,646	116	--	--
Non-energy	232,348	164,010	145,847	93,793	62,698
Total	3,683,984	1,302,172	944,957	755,009	670,765
Operating Income/(Loss):					
Energy Delivery and Generation and Resources *	143,153	178,289	173,658	176,344	149,051
National Energy Trading and Marketing	19,922	2,191	(1,801)	--	--
Non-energy	9,745	8,984	15,064	13,496	6,407
Total	172,820	189,464	186,921	189,840	155,458
Net Income/(Loss):					
Energy Delivery and Generation and Resources *	56,297	100,777(3)	62,404	72,310	63,567
National Energy Trading and Marketing	12,064	2,488	(1,161)	--	--
Non-energy	9,778	11,532	22,210	14,811	13,630
Total	78,139	114,797	83,453	87,121	77,197
Preferred Stock Dividend Requirements	8,399(1)	5,392	7,978	9,123	8,656
Income Available for Common Stock	69,740	109,405(3)	75,475	77,998	68,541
Outstanding Common Stock (000s):					
Weighted Average	54,604(1)	55,960	55,960	55,173	53,538
Year-End	40,454(1)	55,960	55,960	55,948	54,421
Book Value per Share	$ 12.07(1)	$ 13.36	$ 12.70	$ 12.82	$ 12.45
Earnings per Share:					
Energy Delivery and Generation and Resources	0.88	1.71(3)	0.97	1.14	1.03
National Energy Trading and Marketing	0.22	0.04	(0.02)	--	--
Non-energy	0.18	0.21	0.40	0.27	0.25
Total, Basic and Diluted	1.28(1)	1.96(3)	1.35	1.41	1.28
Dividends Paid per Common Share	1.05(2)	1.24	1.24	1.24	1.24
Total Assets at Year-End:					
Energy Delivery and Generation and Resources	2,004,935	1,926,739	1,921,429	1,869,180	1,817,815
National Energy Trading and Marketing	957,421	214,630	899	--	--
Non-energy	291,280	270,416	254,970	229,722	176,438
Total	3,253,636	2,411,785	2,177,298	2,098,902	1,994,253
Long-term Debt at Year-End	730,022	762,185	764,526	738,287	721,146
Company-Obligated Mandatorily Redeemable Preferred Trust Securities	110,000	110,000	--	--	--
Preferred Stock Subject to Mandatory Redemption at Year-End	35,000	45,000	65,000	85,000	85,000
Convertible Preferred Stock	269,227(1)	--	--	--	--
Ratio of Earnings to Fixed Charges	2.66	3.49	2.97	3.22	3.24
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.25	3.12	2.50	2.61	2.59

* Energy Delivery and Generation and Resources figures contain some minor consolidating intersegment eliminations.

(1) The change from 1997 was affected by the conversion of shares of common stock for Convertible Preferred Stock. The 1998 earnings per share would have been $1.35 had the conversion occurred on January 1, 1998. (See Notes 14 and 18 of Notes to Financial Statements for additional information.)

(2) The Company reduced its common stock dividend from the $0.31 per share paid in each of the first three quarters of the year to $0.12 per share in the fourth quarter of 1998.

(3) Includes the $41.4 million after-tax effect of the income tax recovery

(see Note 8 of Notes to Financial Statements for additional information).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Avista Corporation (Avista Corp. or the Company), formerly The Washington Water Power Company, operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The utility portion of the Company, doing business as Avista Utilities, consists of two lines of business which are subject to state and federal price regulation -- (1) Energy Delivery and (2) Generation and Resources. The national businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all utility natural gas operations, and other energy products and services. Costs associated with electric energy commodities, such as purchased power expense, as well as the revenues attributable to the recovery of such costs from retail customers, have been eliminated from the Energy Delivery line of business and are reflected in the results of the Generation and Resources line of business. The results of all natural gas operations are included in the Energy Delivery line of business because natural gas trackers allow natural gas costs to pass through within this line of business without the commodity prices having a material income effect. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth and the economy in the Company's service area. Other factors which may influence long-term energy usage include conservation efforts, appliance efficiency and other technology.

The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales trading and wholesale marketing, primarily to other utilities and power brokers in the Western Systems Coordinating Council (WSCC). Energy trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Generation and Resources manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. In managing the electric energy resource portfolio, Generation and Resources seeks to optimize the availability and operations of generation resources. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, deregulation of the electric utility industry and competition from low cost generation being developed by independent power producers.

Avista Capital is the parent company to the National Energy Trading and Marketing and Non-energy businesses. In order to proactively respond to deregulation, the Company created the National Energy Trading and Marketing line of business, which is comprised of Avista Energy, Avista Advantage and Avista Power. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis, which includes conducting business within the WSCC. Avista Energy's business is affected by several factors, including the demand for and availability of power throughout the United States, lower unit margins on new sales contracts, fewer long-term power contracts being entered into, marginal fuel prices and deregulation of the electric utility industry. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing, resource accounting, energy analysis and load profiling. Avista Power was formed in December 1998 to develop and own generation assets primarily in support of Avista Energy. See Liquidity and Capital Resources: Energy Trading Business and Risk Management.

The Non-energy business is conducted primarily by Pentzer Corporation (Pentzer), which is the parent company to the majority of the Company's Non-energy businesses. Pentzer's business strategy is such that its earnings result from both transactional and non-transactional earnings. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies.

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth in order to achieve its goal of becoming a diversified North American energy company.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

1998 COMPARED TO 1997

Overall reported earnings per share for 1998 were $1.28, compared to $1.96 in 1997. The primary factors causing the decrease from 1997 were an income tax recovery, net of associated items, which increased 1997 earnings per share by $0.49, and decreased operating income from the Generation and Resources line of

business in 1998. In addition, in December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of

Convertible Preferred Stock (see Notes 14 and 18 of Notes to Financial Statements for additional information about the new Convertible Preferred Stock and earnings per share). If these shares had been exchanged at the beginning of the year, basic and diluted earnings per share for 1998 would have been $1.39 and $1.35, respectively.

Net income available for common stock decreased $39.7 million in 1998 from 1997. The 1998 results primarily reflect hydroelectric generation 21% lower than 1997 and increased purchased power prices and volumes, partially offset by improved earnings at Avista Energy. In addition, the 1997 results include the impact of $41.4 million, after-tax, in an income tax recovery from the Internal Revenue Service, which was partially offset by $14.0 million, after-tax, in environmental reserves and non-recurring adjustments (see below and Note 8 of Notes to Financial Statements for additional information about the income tax recovery). Excluding these items, utility (Energy Delivery and Generation and Resources) income available for common stock decreased $20.2 million, or 30%, in 1998, contributing $0.88 to earnings per share in 1998, compared to $1.22 in 1997. National Energy Trading and Marketing income available for common stock increased $9.6 million, contributing $0.22 to earnings per share in 1998 as compared to $0.04 in 1997 when there were only 5 months of operations. Non-energy operating income available for common stock decreased $1.8 million, or 15%, in 1998 and contributed $0.18 to earnings per share in 1998, compared to $0.21 in 1997. Transactional gains recorded by Pentzer totaled $4.3 million, or $0.08 per share, and $7.3 million, or $0.13 per share, in 1998 and 1997, respectively.

Interest expense increased $2.8 million in 1998, as compared to 1997, primarily due to higher levels of outstanding debt during the year. During 1998, $84.0 million of long-term debt was issued, while $14.0 million of long-term debt matured or was redeemed. At December 31, 1998, there was no short-term debt outstanding, compared to $108.5 million at December 31, 1997. Long-term debt outstanding at December 31, 1998 was $32.2 million lower than at the end of 1997.

Income taxes decreased $17.7 million, or 29%, in 1998 from 1997, primarily due to higher taxes in 1997 on the interest income received as a part of the income tax recovery, partially offset by adjustments related to revised estimates on certain tax issues.

Preferred stock dividend requirements increased $3.0 million in 1998 over 1997 due to the exchange of shares of common stock for shares of $12.40 Convertible Preferred Stock, Series L, which occurred in December 1998. This was partially offset by the redemption of $10 million in Preferred Stock, Series I in June 1998.

1997 COMPARED TO 1996

Overall earnings per share for 1997 were $1.96, compared to $1.35 in 1996. The 1997 results include the receipt of $41.4 million, after-tax, in an income tax recovery from the Internal Revenue Service, which was partially offset by environmental reserves and non-recurring adjustments (see below and Note 8 of Notes to Financial Statements for additional information about the income tax recovery). The 1996 results reflect $11.1 million in after-tax operating expenses related to storm damage on the electric distribution system and the expensing of $10.3 million in after-tax non-operating costs related to the terminated proposed merger between the Company and Sierra Pacific Resources (see Note 22 of Notes to Financial Statements for additional information about the merger termination). The 1996 results also reflect transactional gains totaling $15.1 million recorded by Pentzer primarily as a result of the sale of property by one of its subsidiary companies and the sale of stock in Itron, Inc. (Itron). Excluding all of these unusual items, earnings per share in 1997 would have been $1.47 as compared to $1.73 for 1996.

Net income available for common stock increased $33.9 million, or 45%, in 1997 over 1996. In 1997, the income tax recovery resulted in an increase of $0.74 in earnings per share for 1997, which was offset by $0.25 per share in environmental reserves and other miscellaneous non-recurring adjustments. The ice storm (see below) and merger-related expenses resulted in decreases of $0.20 and $0.18, respectively, in earnings per share for 1996. Utility income contributed $1.71 in 1997, compared to $0.97 in 1996. National Energy Trading and Marketing income available for common stock increased $3.6 million in 1997, contributing $0.04 to earnings per share in 1997 compared to a loss of $0.02 in 1996. Non-energy operating income available for common stock decreased $10.7 million, or 48%, in 1997 and contributed $0.20 to earnings per share in 1997 and $0.40 in 1996. Transactional gains recorded by Pentzer totaled $7.3 million, or $0.13 per share, in 1997, and $15.1 million, or $0.27, in 1996.

Interest expense increased $3.0 million in 1997, as compared to 1996, primarily due to higher levels of outstanding debt and new Preferred Trust Securities issued during the year. In 1997 and 1996, $70 million and $20 million, respectively, in preferred stock was redeemed, which resulted in higher levels of short-term borrowings. In addition, a total of $110 million in Preferred Trust Securities were issued in January and June 1997, distributions on which are included in interest expense. (See Note 15 of Notes to Financial Statements and Liquidity and Capital Resources for additional information.) During 1997 and 1996, $51.5 million and $38.0 million, respectively, of long-term debt matured or was redeemed, while $20.0 million in long-term debt was issued in 1997. At December 31, 1997, there was $108.5 million of short-term debt outstanding, compared to $85.0 million at December 31, 1996. Long-term debt outstanding at December 31, 1997 was $2.3 million lower than at the end of 1996.

In June 1997, the Company received $81 million from the Internal Revenue Service (IRS) to settle an income tax claim relating to its investment in the terminated nuclear project 3 of the Washington Public Power Supply System (WNP3). The $81 million recovery included $34 million in income taxes the Company overpaid in prior years plus

$47 million in accrued interest, which in total contributed $41.4 million, or $0.74 per share, to net income. (See Note 8 of Notes to Financial Statements for additional information about the income tax recovery.)

Income taxes increased $11.6 million, or 23%, in 1997 over 1996. The increased taxes in 1997 were primarily due to the taxes on the interest income received as a part of the income tax recovery, partially offset by an $11.4 million income tax benefit associated with the income tax recovery and adjustments related to revised estimates on certain tax issues.

Preferred stock dividend requirements decreased $2.6 million in 1997 from 1996 due to the redemption of $20 million in Preferred Stock, Series I in June 1997 and the redemption of the entire $50 million Flexible Auction Preferred Stock, Series J in August 1997. These securities were redeemed with a portion of the proceeds of the Preferred Trust Securities which were issued in January and June 1997. However, as described above, distributions on the Preferred Trust Securities are accounted for in interest expense, not preferred dividends.

ENERGY DELIVERY

1998 COMPARED TO 1997

Energy Delivery's income from operations increased $3.2 million in 1998 over 1997 primarily due to increased revenues in 1998. Energy Delivery's operating revenues increased $29.2 million, while operating expenses increased $26.0 million during 1998 as compared to 1997.

Total electric retail revenues increased $1.8 million in 1998 as compared to 1997, primarily as a result of increased commercial and industrial revenues, partially offset by decreased revenues from residential customers. Total natural gas revenues increased $27.4 million in 1998 over 1997, primarily due to a combination of 4.4% customer growth, increased natural gas prices approved by the Washington Utilities and Transportation Commission (WUTC), effective in January 1998, and an increase in non-retail sales, partially offset by decreased customer usage as a result of weather 13% warmer than normal in 1998 as compared to 5% warmer than normal in 1997.

Natural gas purchased costs increased $15.3 million in 1998 due to increased sales volumes as a result of customer growth and higher non-retail sales. Administrative and general expenses increased $7.0 million due primarily to executive changes, corporate name change expenses and incentives. Depreciation and amortization increased $2.0 million due to higher amounts of plant-in-service.

1997 COMPARED TO 1996

Energy Delivery's income from operations increased $24.3 million, or 27%, in 1997 over 1996 primarily due to $17.1 million in pre-tax expenses associated with the storm damage on the Company's electric distribution system in 1996. Energy Delivery's operating revenues increased $0.1 million, while expenses decreased $24.2 million during 1997 as compared to 1996.

On November 19, 1996, the eastern Washington and northern Idaho region experienced an ice storm that resulted in damage to the Company's electric transmission and distribution system. The Company's service area was affected by continuing snow and rain, which hampered the Company's efforts to restore electric service to some customers until December 1, 1996. Initially, over one-third, or 100,000, of the Company's retail electric customers were without electric service. Repairing the damage to the Company's system cost approximately $21.8 million, of which $17.1 million (pre-tax) was attributable to operations and maintenance expenses, including labor and materials, for the repair of damaged lines, transformers and other equipment. The remainder of the cost represents capital expenditures to replace poles and other equipment damaged beyond repair.

Total electric retail revenues increased $5.6 million in 1997 as compared to 1996, primarily as a result of increased transmission revenues, partially offset by decreased revenues from retail electric customers. Transmission revenues increased $7.6 million in 1997 over 1996 due to increased wholesale electric sales. Electric retail revenues decreased $3.4 million, primarily due to decreased industrial sales as a result of the DADS tariff and other adjustments, partially offset by a 1.6% growth in retail customers during 1997. Total natural gas revenues decreased $5.5 million in 1997 from 1996, primarily due to decreased therm sales as a result of weather 5% warmer than normal in 1997, compared to 9% colder than normal in 1996, and decreased natural gas prices, partially offset by an increase in non-retail sales and 5.7% customer growth.

Operating and maintenance expenses decreased $21.4 million in 1997 from 1996 primarily due to the $17.1 million in expenses recorded in 1996 related to the storm damage on the Company's electric distribution system. Natural gas purchased expense decreased $2.7 million in 1997 from 1996 primarily due to lower therm sales as a result of warmer weather.

GENERATION AND RESOURCES

1998 COMPARED TO 1997

Generation and Resources' income from operations decreased $38.4 million, or 59%, in 1998 from 1997. The decrease was due to hydroelectric generation 21% lower than 1997, which resulted in increased purchased power costs due to both increased prices and volumes. Generation and Resources' operating revenues and expenses increased $128.4 million and $166.8 million, respectively, during 1998 as compared to 1997.

Generation and Resources' revenues increased 25% in 1998 over 1997, primarily due to increased short-term sales; however, this was more than offset by increased purchased power and fuel costs. Revenues from short-term sales increased $163.2 million, while long-term revenues decreased $35.8 million in 1998 as compared to 1997. Total sales volumes during 1998 increased 17% over 1997. Short-term sales volumes increased 3.4 million mwhs, or 28%, while long-term sales decreased 0.6 million mwhs.

Increased short-term sales volumes and prices 30% higher than the previous year resulted in a $160.4 million, or 52%, increase in electric purchased power expense in 1998 over 1997, which accounts for the majority of the increase in Generation and Resources' operating expenses. Fuel costs increased $9.8 million in 1998 compared to 1997 as a result of increased generation at the thermal generating plants to meet the demand for energy.

1997 COMPARED TO 1996

Generation and Resources' income from operations decreased $19.6 million, or 23%, in 1997 from 1996. The decrease was due to an $11.8 million decrease from the expiration of older sales contracts with higher margins, lower unit margins on new sales contracts and higher transmission expenses due to increased sales. Generation and Resources' operating revenues and expenses increased $92.6 million and $112.2 million, respectively, during 1997 as compared to 1996. Results from this business segment included activities for the first seven months of 1997 that as of August 1997 were conducted by Avista Energy.

Generation and Resources' revenues increased 22% in 1997 over 1996, primarily due to increased short-term sales. Revenues from short-term sales increased $99.8 million, while long-term revenues decreased $0.4 million in 1997 as compared to 1996. Total sales volumes during 1997 increased 47% over 1996. Short-term sales volumes increased 5.4 million mwhs, or 82%, while long-term sales decreased 0.2 million mwhs.

Increased short-term sales resulted in a $119.4 million, or 63%, increase in electric purchased power expense in 1997 over 1996. Fuel costs decreased $6.1 million in 1997 compared to 1996 as a result of economic dispatch of the thermal generating plants.

NATIONAL ENERGY TRADING AND MARKETING

National Energy Trading and Marketing includes the results of Avista Energy, the national energy marketing subsidiary, Avista Advantage, the energy services subsidiary, and Avista Power, which was formed in December 1998 to develop and own generation assets primarily in support of Avista Energy. Avista Power operations had no impact on 1998 earnings. Although Avista Energy and Avista Advantage began incurring start-up costs during 1996, Avista Energy only became operational in July 1997 and began trading operations in August 1997. Year to year results are not comparable since 1997 only represents five months of operations. Avista Energy maintains a trading portfolio which it marks to fair market value on a daily basis (mark-to-market accounting), and which may cause earnings variability in the future.

1998 COMPARED TO 1997

National Energy Trading and Marketing's income available for common stock increased $9.6 million over 1997, while income from operations increased $17.7 million in 1998 over 1997, primarily due to a full year of operations at Avista Energy. This increase was partially offset by a loss from the energy services business, due to customers and revenue streams that did not materialize as expected and a longer than anticipated sales cycle. National Energy Trading and Marketing's operating revenues and expenses increased $2.16 billion and $2.14 billion, respectively, during 1998 as compared to 1997 when the Company only had five months of operations.

Avista Energy provided positive results in 1998 despite the price volatility experienced in power markets in the Midwest and East during various periods of the year. The company was well-positioned in its market, which allowed net gains in its portfolio during periods of high volatility. Avista Energy expected high volatility in Eastern electric markets in the summer of 1998 based on expected demand and the high probability of a weather-related impact on energy prices. As a result, Avista Energy established positions in anticipation of volatile market swings, and in turn experienced positive earnings in its portfolio during this period. However, there is no guarantee that positive results can or will always be achieved. For additional information about market risk and credit risk, see Liquidity and Capital Resources: Risk Management.

National Energy Trading and Marketing's total assets and liabilities increased by approximately $739.9 million from December 31, 1997 to December 31, 1998. This increase resulted primarily from the increased volume of

transactions, as well as the impact of the market's price volatility on forward price curves, which increased the valuation of Avista Energy's mark-to-market assets and liabilities.

1997 COMPARED TO 1996

National Energy Trading and Marketing's income from operations increased $4.0 million in 1997 over 1996. This increase was primarily due to Avista Energy becoming operational, partially offset by continued start-up costs at both Avista Energy and Avista Advantage and, for the energy services business, customers and revenue streams that did not materialize as expected and a longer than anticipated sales cycle. National Energy Trading and Marketing's operating revenues and expenses increased $247.5 million and $243.5 million, respectively, during 1997 as compared to 1996.

NON-ENERGY

1998 COMPARED TO 1997

Non-energy income available for common stock for 1998 was $9.8 million, which was a $1.8 million decrease from 1997 earnings. Transactional gains decreased to $4.3 million in 1998 from $7.3 million in 1997, while non-transactional earnings from Pentzer's portfolio companies increased $2.2 million. The non-transactional earnings included an approximate $4.4 million after-tax loss in the fourth quarter at a Pentzer operating company due to a business repositioning and an inventory adjustment.

Income from operations totaled $9.7 million, which was a $0.8 million increase over 1997. Non-energy operating revenues and expenses increased $68.3 million and $67.5 million, respectively, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies.

1997 COMPARED TO 1996

Non-energy net income for 1997 was $11.5 million, which represents a $10.7 million, or 48%, decrease from 1996. The decrease in 1997 earnings primarily resulted from transactional gains recorded by Pentzer in 1997 totaling $7.3 million, from the sale of Itron stock and the sale of a portfolio company, compared to transactional gains during 1996 totaling $15.1 million, net of taxes and other adjustments, as a result of the sale of property by one of its subsidiary companies and the sale of stock in Itron.

Operating income decreased $6.1 million in 1997 from 1996 primarily as a result of lower earnings contributions from Pentzer portfolio companies. Non-energy operating revenues and expenses increased $18.2 million and $24.2 million, respectively, primarily as a result of acquisitions.

LIQUIDITY AND CAPITAL RESOURCES

Overall Operations

Operating Activities Cash from operating activities less cash dividends paid provided all funds needed for capital expenditures in 1998, 1997 and 1996. Net cash provided by operating activities in 1998 increased over 1997 due primarily to the $143.4 million provided by the monetization of a contract (see below and Note 1 of Notes to Financial Statements for additional information). In addition, changes in various working capital components, such as receivables and payables, caused cashflows to decrease by $44.6 million from 1997, primarily due to the growth in Avista Energy's operations.

Investing Activities Net cash used in investing activities decreased in 1998 from 1997 primarily due to the sale of marketable securities held for investing activities by Pentzer, compared to the sale of subsidiary assets by Pentzer in 1997. Utility operations' capital expenditures, excluding Allowance for Funds Used During Construction (AFUDC) and Allowance for Funds Used to Conserve Energy (AFUCE, a carrying charge similar to AFUDC for conservation-related capital expenditures), were $268 million for the 1996-1998 period.

Financing Activities Net cash used in financing activities totaled $108.7 million in 1998 compared to $66.2 million in 1997. In 1998, $84.0 million of proceeds were received from the issuance of Medium-Term Notes. These proceeds, plus cash provided from operating activities, were used to retire $14.0 million of long-term debt, redeem $10 million of preferred stock and pay down $108.5 million of short-term debt. In 1997, $110 million of preferred trust securities were issued (see Note 15 of Notes to Financial Statements for additional information), the proceeds of which, along with an additional $20.0 million from the issuance of Secured Medium-Term Notes, were used for the maturity and redemption of $70.0 million of preferred stock and $51.5 million of long-term debt. During the 1996-1998 period, $203.5 million of long-term debt and preferred stock matured, was mandatorily redeemed or was optionally redeemed and refinanced at a lower cost.

During 1998, the Company entered into an agreement that increased the amount of customer accounts receivable the Company could sell from $40 million to $80 million to provide additional funds for capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. At December 31, 1998, $25.0 million in receivables had been sold pursuant to the agreement.

In August 1998, the Company announced a dividend restructuring plan that reduced the Company's annual common stock dividend from $1.24 per share to $0.48 per share, a 61% reduction, which was effective with the payment of the common stock dividend paid on December 15, 1998. At the same time, an exchange offer was made whereby shareholders were provided the opportunity to exchange their shares of common stock for mandatorily convertible preferred shares, each of which pays an annual dividend of $1.24 per share for a period of about three years. After three years, the new-issue preferred shares will automatically convert back to common stock, based on the shares converted. The Company has the option of converting some or all of the new-issue shares to common stock prior to the end of the three-year period. Shareholders who chose not to participate in the exchange plan retained their ownership in Avista Corporation common stock. The annual savings resulting from the dividend restructuring are approximately $30 million for the next three years, increasing to about $42 million annually once the convertible preferred shares are converted back to common stock, which will assist in funding a portion of the Company's capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. See Note 14 of Notes to Financial Statements for additional information about the new convertible preferred stock.

ENERGY DELIVERY AND GENERATION AND RESOURCES OPERATIONS

The Company funds capital expenditures with a combination of internally-generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates annually. Cash provided by operating activities remains the Company's primary source of funds for operating needs, dividends and capital expenditures.

Capital expenditures are financed on an interim basis with notes payable (due within one year). The Company has $200 million in committed lines of credit. In addition, the Company may currently borrow up to $100 million through other borrowing arrangements with banks. As of December 31, 1998, there were no outstanding borrowings under the committed lines of credit or the other short-term borrowing arrangements.

From time to time the Company enters into sale/leaseback arrangements for various long-term assets which provide additional sources of funds. See Note 12 of Notes to Financial Statements for additional information.

In December 1998, the Company assigned and transferred certain rights under a long-term power sales contract to a funding trust. In return, the Company received approximately $143.4 million, representing the present value of the cash flows for the majority of the remaining payments due under the long-term sales contract. The Company utilized the funds to repay short-term bank borrowings and other debt.

The Company is restricted under various agreements as to the additional securities it can issue. Under the most restrictive test of the Company's Mortgage, an additional $623 million of First Mortgage Bonds could be issued as of December 31, 1998. As of December 31, 1998, under its Restated Articles of Incorporation, approximately $715 million of additional preferred stock could be issued at an assumed dividend rate of 6.95%.

During the 1999-2001 period, utility capital expenditures are expected to be $283 million, and $127.5 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally-generated funds will provide approximately 80% of the funds needed for its capital expenditure program. External financing will be required to fund a portion of capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. Sources of funds would include, but are not necessarily limited to, cash flows from the reduction in the Company's common stock dividend, sales of certain assets, additional long-term debt, leasing or other equity securities. These estimates of capital expenditures are subject to continuing review and adjustment. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements.

See Notes 2, 10, 11, 12, 13, 14, 15, 16 and 17 of Notes to Financial Statements for additional details related to financing activities.

NATIONAL ENERGY TRADING AND MARKETING OPERATIONS

During 1998, the Company invested $65.1 million in the common equity of Avista Capital. Avista Capital utilized the majority of the proceeds from this investment to increase its total investment in the common equity of Avista Energy to $106.7 million. Avista Energy funds its ongoing operations with a combination of internally-generated cash and external financing. The Company expects continued significant growth in Avista Energy's national energy trading and marketing business activities. This rapid growth will require increased capital investment, as well as an increased need for credit and financial support.

Effective December 23, 1998, Avista Energy arranged for an increase in its credit facility with a commercial bank from $50 million to $100 million. The credit agreement expires April 1, 1999. The facility provides capital resources to accommodate growth, principally in the form of letters of credit used to enhance credit for natural gas and electricity purchases. The credit facility also provides Avista Energy liquidity in the form of short-term borrowings used to finance inventory and receivables. The maximum cash component of credit extended by the bank is $30 million, with availability of up to $100 million in the issuance of letters of credit. The credit agreement may be terminated by the bank at any time and all extension of credit under the agreement are payable upon demand, in either case at the bank's sole discretion. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. At December 31, 1998 and 1997, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately $20.2 million and $2.8 million at December 31, 1998 and 1997, respectively. See Note 11 of Notes to Financial Statements for additional information.

At December 31, 1998, the National Energy Trading and Marketing operations had $38.0 million in cash and cash equivalents and $0.9 million in long-term debt outstanding.

The 1999-2001 National Energy Trading and Marketing capital expenditures are expected to be $10.1 million.

NON-ENERGY OPERATIONS

Capital expenditures for the non-energy operations were $28.0 million for the 1996-1998 period. During this period, $45.5 million of debt was repaid and capital expenditures were partially financed by the $62.6 million in proceeds from new long-term debt.

The non-energy operations have $54.0 million in short-term borrowing arrangements ($21.4 million outstanding as of December 31, 1998) to fund corporate requirements on an interim basis. At December 31, 1998, the non-energy operations had $18.0 million in cash and marketable securities with $54.0 million in long-term debt outstanding.

The 1999-2001 non-energy capital expenditures are expected to be $17.8 million, and $32.3 million in debt maturities will also occur. During the next three years, internally-generated cash and other debt obligations are expected to provide the majority of the funds for the non-energy capital expenditure requirements.

Avista Labs, a subsidiary of Avista Capital, recently announced the receipt of a $2 million technology development award from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program. The Company will contribute another $1.22 million over a two-year period. Avista Labs plans to work on technology that will increase the energy density of its fuel cell design and develop multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem.

TOTAL COMPANY CASH REQUIREMENTS

(Millions of Dollars)

	Actual			Projected		
	1996	1997	1998	1999	2000	2001
Utility operations:						
Avista Utilities capital expenditures(1)	$ 89	$ 87	$ 92	$ 92	$108	$103
Debt and preferred stock maturities(2)	63	121	24	47	55	40
Total utility	152	208	116	139	163	143
Avista Capital operations:						
Capital expenditures	2	12	14	16	6	6
Investments	4	59	53	40	41	56
Debt maturities	10	12	18	12	11	9
Total Avista Capital	16	83	85	68	58	71
Total Company	$168	$291	$201	$207	$221	$214

(1) Capital expenditures exclude AFUDC and AFUCE.

(2) Excludes notes payable (due within one year).

The Company's total common equity decreased $260.8 million to $488.0 million at the end of 1998. The 1998 decrease was primarily due to the exchange of shares of common stock for shares of $12.40 Convertible Preferred Stock, Series L (see Note 14 of Notes to Financial Statements for additional information). The Company's consolidated capital structure at December 31, 1998, was 45% debt, 25% preferred securities (including the Preferred Trust Securities) and 30% common equity as compared to 46% debt, 9% preferred securities (including the Preferred Trust Securities) and 45% common equity at year-end 1997. Had the convertible preferred stock been converted back to common stock, the Company's consolidated capital structure at December 31, 1998, would have been 45% debt, 9% preferred securities (including the Preferred Trust Securities) and 46% common equity.

ADDITIONAL FINANCIAL DATA

At December 31, 1998, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately $730.0 million. Of such amount, $237.5 million represents long-term unsecured and unsubordinated indebtedness of the Company, and $449.3 million represents secured indebtedness of the Company. The balance of $43.2 million represents indebtedness of the subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities.

FUTURE OUTLOOK

Business Strategy

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth in order to achieve its goal of becoming a diversified North American energy company.

The Company's growth strategy will expose the Company to risks associated with rapid expansion, challenges in recruiting and retaining qualified personnel, risks associated with acquisitions and joint ventures and increasing competition. In addition, growth in the energy trading and marketing business will expose the Company to increased financial and credit risks associated with commodity trading activities. The Company believes that its extensive experience in the electric and natural gas business, coupled with its strong management team, will allow the Company to effectively manage its transition to a diversified North American energy company.

Energy

The Company seeks to strengthen its position of leadership in energy delivery and generation as well as energy trading and marketing on a local, regional and national basis. The Company will seek to increase its asset and customer base through a focus on acquisitions and strategic alliances in all parts of its business. The Company intends to focus on growing its core energy business by seeking to acquire control of physical assets, specifically power generation assets and electric and natural gas transmission and distribution assets. The Company expects that initial growth will come at a local and regional level, with national growth to follow. Key strengths of the Company today include its position as one of the lowest cost producers of power in the nation, expertise in hydroelectric and power system management, plus capabilities in trading and wholesale and retail marketing of natural gas and electric energy. The Company is also continuing to develop a unique approach to commercialization of fuel cell technology.

Locally. The Company is a long-standing leader in the Northwest region of the United States, providing some of the lowest cost energy to its customers. The Company's strategy is to add selectively to its already strong foundation of state-regulated utility assets to solidify its position as a leading supplier of low-cost electric and natural gas energy services.

Regionally. The Company intends to add to its regulated and non-regulated assets on a regional basis and participate in industry consolidation to further optimize its assets and create greater economies of scale. In addition to energy delivery and generation, the Company plans to concentrate on growing its energy trading and marketing business. The strong growth in this business is driven by the Company's significant base of knowledge and experience in the operation of physical systems - for both natural gas and electric energy in the region, as well as its relationship-focused approach to the customer. The Company will also focus on expanding its telecommunications business through its newest subsidiary, Avista Communications. (See Note 21 of Notes to Financial Statements for additional information about this subsidiary.)

Nationally. The Company's strong regional energy trading and marketing skills serve as a platform for the Company's growing national presence. The Company will seek to expand its customer base through relationships with other energy providers outside the Company's Northwest stronghold, thereby leveraging its existing trading and marketing skills, as well as through its Internet-based specialty billing and information services.

Non-Energy

The Company conducts the majority of its non-energy business through Pentzer, its wholly owned subsidiary. Pentzer's business strategy is to acquire controlling interests in a broad range of middle market companies, facilitate improved productivity and growth, and ultimately sell such companies to the public or a strategic buyer.

Competition and Business Risk

The Company continues to compete for new retail electric customers with various rural electric cooperatives and public utility districts in and adjacent to its service territories. Challenges facing the retail electric business include evolving technologies that provide alternate energy supplies, the cost of the energy supplied, the potential for retail wheeling, self-generation and fuel switching by commercial and industrial customers and increasingly stringent environmental laws. When electric utility companies are required to provide retail wheeling service, the Company believes it will be in a position to benefit since it is committed to remaining one of the country's lowest-cost providers of electric energy. Consequently, the Company believes it faces minimal risk for stranded generation, transmission or distribution assets due to its low cost structure. The Company's need for new future electric resources to serve retail loads is expected to remain very minimal.

Natural gas remains priced competitively compared to other alternative fuel sources for residential, commercial and industrial customers and is projected to remain so into the future due to abundant supplies and competition. Challenges facing the Company's retail natural gas business include the potential for customers to by-pass the Company's natural gas system. To reduce the potential for such by-pass, the Company prices its natural gas services,

including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of special contracts. The Company has long-term transportation contracts with seven of its largest industrial customers which reduces the risks of these customers by-passing the Company's system in the foreseeable future.

Generation and Resources and Avista Energy continue to compete in the wholesale electric market with other utilities, federal marketing agencies and power marketers. It is expected that competition to sell capacity will remain vigorous, and that prices will remain depressed for at least the next several years, due to increased competition and surplus capacity in the western United States. Competition related to the sale of capacity and energy is influenced by many factors, including the availability of capacity in the western United States, the availability and prices of natural gas and oil, spot energy prices and transmission access. Business challenges affecting the Generation and Resources and National Energy Trading and Marketing lines of business include competition from low-cost generation being developed by independent power producers, declining margins due to a greater reliance on short-term sales, evolving technologies that provide alternate energy supplies and deregulation of electric and natural gas markets.

The Company's energy-related businesses are exposed to risks relating to changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, the Company utilizes electric, natural gas and related commodity derivatives, and has established risk management oversight for these risks for each area of the Company's energy-related business. The Company has implemented procedures to manage such risk and has established a comprehensive Risk Management Committee, separate from the units that create such risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures.

Economic and Load Growth

The Company expects economic growth to continue in its eastern Washington and northern Idaho service area. The Company, along with others in the service area, is continuing its efforts to facilitate expansion of existing businesses and attract new businesses to the Inland Northwest. Agriculture, mining and lumber were the primary industries for many years, but health care, education, electronic and other manufacturing, tourism and the service sectors have become increasingly important industries that operate in the Company's service area. The Company also anticipates moderate economic growth to continue in its Oregon service area.

The Company anticipates residential and commercial electric load growth to average approximately 2.3% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis. A Public Utility Regulatory Policies Act of 1978 (PURPA) contract with the Company's largest customer expires in 2002. The customer is expected to self-generate at that time, which will reduce the load to this customer by the amount the Company has been purchasing and then reselling to them. Although it will have no material impact on loads, it will reduce the Company's costs since the PURPA contract is at above-market prices. Overall, the load growth, adjusted for this situation, is 2.4% annually.

The Company anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.7% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.1% growth annually during that same period.

The forward-looking projections set forth above regarding retail sales growth are based, in part, upon publicly available population and demographic studies conducted independently. The Company's expectations regarding retail sales growth are also based upon various assumptions including, without limitation, assumptions relating to weather and economic and competitive conditions and an assumption that the Company will incur no material loss of retail customers due to self-generation or retail wheeling. Changes in the underlying assumptions can cause actual experience to vary significantly from forward-looking projections.

Environmental Issues

Since December 1991, a number of species of fish in the Northwest, including the Snake River sockeye salmon and chinook salmon, the Kootenai River white sturgeon, the upper Columbia River steelhead and the bull trout have been listed as threatened or endangered under the Federal Endangered Species Act (ESA). A listing of the upper Columbia River spring chinook is anticipated by mid-1999. Thus far, measures which have been adopted and implemented to save the Snake River sockeye salmon and chinook salmon have not directly impacted generation levels at any of the

Company's hydroelectric dams. The Company does, however, purchase power from four projects on the Columbia River that are being directly impacted by ongoing mitigation measures for spring chinook, salmon and steelhead. The reduction in generation at these projects is relatively minor, resulting in minimal economic impact on the Company at this time. It is currently not possible to accurately predict the likely economic costs to the Company resulting from all future actions.

The Company is currently in the process of relicensing the Cabinet Gorge and Noxon Rapids hydroelectric projects on the Clark Fork River in northern Idaho and western Montana. The restoration of native salmonid fish, in particular bull trout, is a principal focus for the members of the collaborative relicensing team. Bull trout are native to this area and a "threatened" listing for bull trout occurred in 1998 under the ESA. The Company is working closely with the U.S. Fish and Wildlife Service, Native American tribes and the states of Idaho and Montana to institute coordinated recovery measures on the lower Clark Fork River. A settlement agreement reached in conjunction with the filing in February 1999 for new FERC licenses establishes a plan for bull trout restoration, including annual budget estimates.

Relicensing studies in 1997 and 1998 indicated very high levels of atmospheric gas supersaturation below Cabinet Gorge Dam during periods of heavy spill. The settlement agreement provides for additional studies to identify what, if any, effects there are to aqueous resources and whether abatement measures, and what type, will be required at Cabinet Gorge.

See Note 20 of Notes to Financial Statements for additional information.

YEAR 2000

The Company continues to move forward with a comprehensive program to address areas of risk associated with the Year 2000. Systems and programs that may be affected by the Year 2000 problem have been identified and activities are underway to make these systems Year 2000 ready. At this time, it is the Company's belief that all identified modifications that are within the Company's operating control will be made within the required time frames.

State of Readiness

In order to address Year 2000 issues, several project activity teams were created and a comprehensive readiness plan was developed to bring the Company's business critical systems into Year 2000 readiness by the middle of 1999. The Company defines business critical systems as systems that directly affect the Company's ability to deliver energy services to customers. The Company's Year 2000 project was originally divided into four major categories of activities: Desktop Computer Systems, Business Systems, Supply Chain and Embedded Systems. Contingency Planning developed into its own category in late 1998.

Desktop Computer Systems All desktop computer hardware has been Year 2000 tested and an inventory and assessment of desktop resident third-party software has been completed. The Company expects hardware remediation to be completed by mid-1999. All non-compliant third-party software programs and critical business desktop applications are expected to be upgraded, converted, tested and made Year 2000 ready by the middle of 1999.

Business Systems Many of the Company's critical business systems would not have operated correctly in the year 2000 and beyond, and thus have been or are in the process of being re-programmed, upgraded or replaced. Key business systems have been inventoried and assessed. The Company has completed remediating all mainframe computer code that required fixing to address the Year 2000 issue and testing has been completed on all but two of the Company's mainframe computer business systems. Testing of the two remaining mainframe business systems is scheduled to be completed before the end of April 1999. Implementation of a new Materials Management system is scheduled for late 1999. The Company is in the process of developing alternative plans in the unlikely event the Company is unable to implement the new Materials Management System before the year 2000. A failure of these systems would not jeopardize the Company's ability to deliver energy services to customers, but might affect its ability to perform selected accounting and business-related functions. The Company has completed testing and remediation of approximately 85% of its business critical systems.

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

Embedded Systems The Embedded System team is responsible for locating, assessing, testing, fixing or replacing microprocessor-controlled devices. Inventory and assessment is 99 percent complete, and to date very few embedded systems have been found that require remediation. None of these requiring remediation would have caused a disruption in service to customers. Remediation and testing is complete at all eleven of the Company's generation sites and these sites are Year 2000 ready.

The Company's Supervisory Control and Data Acquisition (SCADA) system, which monitors and controls the majority of the Company's generating and substation equipment and the transmission system, was run "in the Year 2000" for three days without incident. Testing of electric metering and devices in the Company's transmission and distribution substations systems has been completed and full testing of selected substations is in process and scheduled to be completed by mid-1999.

Contingency Planning

The Company has developed contingency plans for the Company's electric and natural gas services and has also participated in the development of region-wide contingency plans for electric service through the Company's electric reliability region - the Western Systems Coordinating Council (WSCC).

A major Year 2000 project activity for the Company during 1999 will be the development and implementation of detailed operational plans to support the Company's contingency plans. Key activities in 1999 include the assignment of resources to key locations for the evening of December 31, 1999 and the morning of January 1, 2000, training of personnel, testing of backup procedures and the completion of tasks that support the Company's contingency plans. The Company will continue to participate in the further development and testing of the region-wide contingency plans. This includes region-wide drills coordinated by the WSCC scheduled for April 9, 1999 and September 9, 1999.

Costs

The Company estimates that the cost of its Year 2000 project will be approximately $6-7 million in incremental costs during the 1997-1999 time period. Through December 31, 1998, the Company has spent $3.5 million in incremental costs. These costs are being funded through operating cashflows. The Company does not expect costs associated with the Year 2000 project to materially affect the Company's earnings in any one year.

Risks

Based upon information to date, the Company believes that, in the most reasonably likely worst-case scenario, Year 2000 issues could result in abnormal operating conditions, such as short-term interruption of generation, transmission and distribution functions, as well as Company-wide loss of system monitoring and control functions and loss of voice communications. These conditions, along with disruptions in natural gas service caused by failures of gas suppliers or interstate gas pipelines coupled with power outages due to the possible instability of the regional electric transmission grid, could result in the possible temporary interruption of service to customers. The Company does not believe the overall impact of this scenario will have a material impact on its financial condition or operations due to the anticipated short-term nature of interruptions.

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

Electric The Company is working with the other energy suppliers in the area to address risks related to the regional electric transmission grid, which consists of the interconnected transmission systems of each utility within the WSCC. Such interconnected systems are critical to the reliability of each interconnected electric service provider, as the failure of one such interconnected provider to achieve Year 2000 compliance could disrupt the others from providing electric services. Should the regional electric transmission grid become unstable, power outages may occur. The Company cannot assure Year 2000 compliance or assess the effect of non-compliance by systems or parties that the Company does not control.

In addition to the traditional electric utility operations of the Company, the energy trading business conducted by Avista Energy is subject to Year 2000 risk. Most of Avista Energy's internal business systems do not require any

significant upgrading and those that do are being addressed. However, if any of Avista Energy's counterparties experience Year 2000 problems (including, but not limited to, problems arising out of failures in the generation or transmission systems of utilities or other energy suppliers), such problems could impair the ability of Avista Energy or any of its counterparties to fulfill their contractual obligations. Avista Energy is in the process of contacting its counterparties to assess their Year 2000 readiness and of developing contingency plans. See "Energy Trading Business".

Natural Gas The Company has performed an inventory and assessment of the equipment in its natural gas distribution systems and believes that there are no devices in the systems that will cause a disruption in the delivery of natural gas to customers due to a Year 2000 problem. However, the Company depends on natural gas pipelines which it does not own or control, and if one or more of the pipelines is unable to deliver natural gas, the Company in turn will be unable to deliver natural gas to customers. In order to address this issue, the Company has contacted each of the natural gas pipeline companies with which it has contracts to assess their Year 2000 readiness efforts and will continue to take reasonable steps to ensure that these suppliers are addressing any Year 2000 related problems that would result in a disruption in natural gas services to customers.

ENERGY TRADING BUSINESS

The participants in the emerging wholesale energy market are public utility companies and, increasingly, power marketers which may or may not be affiliated with public utility companies or other entities. The participants in this market trade not only electricity and natural gas as commodities but also derivative commodity instruments such as futures, forwards, swaps, options and other instruments. This market is largely unregulated and most transactions are conducted on an "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). Power marketers, whether or not affiliated with other entities, generally do not own production facilities and are not subject to net capital or other requirements of any regulatory agency.

The Company (to the extent that the Generation and Resources segment conducts energy trading) and Avista Energy are subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk.

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins as well as scheduled and unscheduled outages of generating facilities) and demand (extreme variations in the weather, whether or not predicted). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. All market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity.

Credit risk relates to the risk of loss that the Company (to the extent of Generation and Resources' trading activities) and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations under the various instruments with the Company or Avista Energy, as the case may be. Credit risk may be concentrated to the extent that one or more groups of counterparties have similar economic, industry or other characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in market or other conditions. In addition, credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. The Company and Avista Energy seek to mitigate credit risk (and concentrations thereof) by applying specific eligibility criteria to prospective counterparties. However, despite mitigation efforts, defaults by counterparties occur from time to time. To date, no such default has had a material adverse effect on the Company or Avista Energy.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled $271.8 million at December 31, 1998.

RISK MANAGEMENT

The risk management process established by the Company is designed to measure both quantitative and qualitative risk in the business. The Company and Avista Energy have adopted policies and procedures to manage the risks inherent in their businesses and have established a comprehensive Risk Management Committee, separate from the units that

create the risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in interest rates, commodity prices and foreign currency exchange rates may result in losses in earnings, cash flow and/or fair values.

The forward-looking information presented below provides only estimates of what may occur in the future, assuming certain adverse market conditions, due to reliance on model assumptions. As a result, actual future results may differ materially from those presented. These disclosures are not indicators of expected future losses, but only indicators of reasonably possible losses.

Interest Rate Risk The Company is subject to the risk of fluctuating interest rates in the normal course of business. The fair value of the Company's cash and short-term investment portfolio and the fair value of notes payable at December 31, 1998 approximated carrying value. Given the short-term nature of these instruments, market risk, as measured by the change in fair value resulting from a hypothetical change in interest rates, is immaterial.

The Company manages interest rate risk by taking advantage of market conditions when timing the issuance of long-term financings and optional debt redemptions and through the use of fixed rate long-term debt with varying maturities. A portion of the Company's capitalization consists of floating rate Company-Obligated Mandatorily Redeemable Preferred Trust Securities, of which the interest portion of the $50 million Series B resets on a quarterly basis, reflecting current market conditions. As of December 31, 1998, a hypothetical 15% change in interest rates would result in an immaterial change in the Company's cash flows related to the increased interest expense associated with these floating rate securities.

Commodity Price Risk The Company and Avista Energy are exposed to market fluctuations in the price and transportation costs of electric and natural gas commodities and, therefore, enter into contracts to hedge the impact of these fluctuations on their energy-related assets, liabilities, and other contractual arrangements. In addition, Avista Energy enters into these contracts for trading purposes to take advantage of market opportunities. At times this may create a net open position in its portfolio that could result in material losses if prices do not move in the manner or direction anticipated. The Company and Avista Energy's risk management program and policies are designed to manage the risks associated with market fluctuations in the price of electricity and natural gas commodities (see Note 3 of Notes to Financial Statements for additional information).

Avista Energy measures the risk in its derivative commodity portfolio on a daily basis utilizing a Value-at-Risk (VAR) model and monitors its risk in comparison to established thresholds. VAR measures the worst expected loss over a given time interval under normal market conditions at a given confidence level. The Company and Avista Energy also use other measures to monitor the risk in their derivative commodity portfolios on a monthly, quarterly and annual basis.

The VAR computations are based on an historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the unfavorable impact of one-day's price movement in the existing portfolio. The quantification of market risk using VAR provides a consistent measure of risk across diverse energy markets and products. VAR represents an estimate of reasonably possible net losses in earnings that would be recognized on its portfolio assuming hypothetical movements in future market rates and is not necessarily indicative of actual results that may occur.

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

At December 31, 1998, Avista Energy's estimated potential one-day unfavorable impact on gross margin was $3.3 million, as measured by VAR, related to its commodity trading and marketing business. The average daily VAR for 1998 was $3.0 million. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits. Market risks associated with derivative commodity instruments held for purposes other than trading were not material at December 31, 1998.

In addition to commodity price risk, the Company's commodity positions are also subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality specifications and forced outages at generating plants.

Foreign Currency Risk The Company has investments in several Canadian companies through Pentzer's acquisition of Universal Showcase, Inc. and Avista Energy Canada, Ltd. and its acquisition of Coast Pacific Management, Inc. (see Note 21 for additional information about these acquisitions). The Company's exposure to foreign currency risk and other foreign operations risk was immaterial to the Company's consolidated results of operations and financial position in 1998 and is not expected to change materially in the near future.

OTHER

On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d' Alene Tribe of Idaho (Tribe) owns the bed and banks of the Coeur d' Alene Lake and the St. Joe River lying within the current boundaries of the Coeur d' Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of the Coeur d' Alene Lake. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. The decision has been appealed by the State of Idaho to the Ninth Circuit. While the Company is not a party to this action, it is meeting with the Tribe to evaluate the impact of this decision on storage rights on the reservoir and operation of the Company's hydroelectric facilities on the Spokane River, downstream of the Coeur d' Alene Lake, which is the reservoir for these plants.

The Board of Directors considers the level of dividends on the Company's common stock on a continuing basis, taking into account numerous factors including, without limitation, the Company's results of operations and financial condition, as well as general economic and competitive conditions. The Company's net income available for dividends is derived from its retail electric and natural gas utility operations.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The Company is including the following cautionary statement in this Form 10-K to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and are all statements which are other than statements of historical fact, including without limitation those that are identified by the use of the words "anticipates," "estimates," "expects," "intends," "plans," "predicts," and similar expressions. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are also expressly qualified by these cautionary statements.

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

Energy Delivery and Generation and Resources Operations -

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for the Company and its Energy Delivery and Generation and Resources operations to differ materially from those discussed in forward-looking statements include prevailing legislative developments, governmental policies and regulatory actions with respect to allowed rates of return, financings, or industry and rate structures, weather conditions, wholesale and retail competition (including but not limited to electric retail wheeling and transmission cost), availability of economic supplies of natural gas, present or prospective natural gas distribution or transmission competition (including but not limited to prices of alternative fuels and system deliverability costs), recovery of purchased power and purchased gas costs, present or prospective generation, operations and construction

of plant facilities, and acquisition and disposal of assets or facilities.

National Energy Trading and Marketing Operations -

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for the National Energy Trading and Marketing operations to differ materially from those discussed in forward-looking statements include further industry restructuring evolving from federal and/or state legislation, regulatory actions by state utility commissions, demand for and availability of energy throughout the country, wholesale competition, availability of economic supplies of natural gas, margins on purchased power, and the formation of additional alliances or entities.

Non-Energy Operations -

Certain important factors which could cause actual results or outcomes for the Company's non-energy operations to differ materially from those discussed in forward-looking statements include competition from other companies, the ability to obtain new customers and retain old ones, reliability of customer orders, business acquisitions, disposal of assets, the ability to obtain funds from operations, debt or equity, research and development findings and the availability of economic expansion or development opportunities.

Factors Common to All Operations -

The business and profitability of the Company are also influenced by economic risks, changes in and compliance with environmental and safety laws and policies, weather conditions, population growth rates and demographic patterns, market demand for energy from plants or facilities, changes in tax rates or policies, unanticipated project delays or changes in project costs, unanticipated changes in operating expenses or capital expenditures, labor negotiation or disputes, changes in credit ratings or capital market conditions, inflation rates, inability of the various counterparties to meet their obligations with respect to the Company's financial instruments, changes in accounting principles and/or the application of such principles to the Company, changes in technology and legal proceedings.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Results and Operations: Liquidity and Capital Resources: Risk Management."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Independent Auditor's Report and Financial Statements begin on the next page.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

INDEPENDENT AUDITORS' REPORT

Avista Corporation
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 1998 and 1997, and the related and consolidated statements of income, comprehensive income and retained earnings, and cash flows for each of the three years in the period ended December 1998, which included the schedules of information by business segments. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Seattle, Washington
January 29, 1999
(February 1, 1999 as to Note 21 and March 10, 1999 as to Note 20)

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Avista Corporation
For the Years Ended December 31
Thousands of Dollars

	1998	1997	1996
OPERATING REVENUES	$ 3,683,984	$ 1,302,172	$ 944,957
OPERATING EXPENSES:			
Resource costs	3,021,046	719,905	378,664
Operations and maintenance	229,620	176,354	181,298
Administrative and general	129,771	96,611	76,972
Depreciation and amortization	70,547	69,893	72,097
Taxes other than income taxes	60,180	49,945	49,005
Total operating expenses	3,511,164	1,112,708	758,036
INCOME FROM OPERATIONS	172,820	189,464	186,921
OTHER INCOME (EXPENSE):			
Interest expense	(69,077)	(66,275)	(63,255)
Interest on income tax recovery	--	47,338	--
Net gain on subsidiary transactions	7,937	11,218	23,953
Merger-related expenses	--	--	(15,848)
Other income (deductions)-net	9,794	(5,873)	1,191
Total other income (expense)-net	(51,346)	(13,592)	(53,959)
INCOME BEFORE INCOME TAXES	121,474	175,872	132,962
INCOME TAXES	43,335	61,075	49,509
NET INCOME	78,139	114,797	83,453
DEDUCT-Preferred stock dividend requirements	8,399	5,392	7,978
INCOME AVAILABLE FOR COMMON STOCK	$ 69,740	$ 109,405	$ 75,475
Average common shares outstanding (thousands)	54,604	55,960	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC	$ 1.28	$ 1.96	$ 1.35
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 18)	$ 1.28	$ 1.96	$ 1.35
Dividends paid per common share	$ 1.05	$ 1.24	$ 1.24
NET INCOME	$ 78,139	$ 114,797	$ 83,453
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Foreign currency translation adjustment	(366)	--	--
Unrealized investment gains/(losses)-net of reclassification adjustment	(2,052)	(3,627)	(13,516)
OTHER COMPREHENSIVE INCOME (LOSS)	(2,418)	(3,627)	(13,516)
COMPREHENSIVE INCOME	$ 75,721	$ 111,170	$ 69,937
RETAINED EARNINGS, JANUARY 1	$ 171,776	$ 131,301	$ 125,031
NET INCOME	78,139	114,797	83,453
DIVIDENDS DECLARED:			
Preferred stock	(7,639)	(5,339)	(8,213)
Common stock	(56,898)	(69,390)	(69,390)
Transfer to Preferred Stock, Series L	(64,844)	--	--
Restricted stock	(419)	--	--
ESOP dividend tax savings	330	407	420
RETAINED EARNINGS, DECEMBER 31	$ 120,445	$ 171,776	$ 131,301

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS

Avista Corporation
At December 31
Thousands of Dollars

	1998	1997
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 72,836	$ 30,593
Temporary cash investments	5,786	22,641
Accounts and notes receivable-net	456,857	176,882
Energy commodity assets	335,224	76,449
Materials and supplies, fuel stock and natural gas stored	42,140	42,148
Prepayments and other	55,753	28,130
Total current assets	968,596	376,843
UTILITY PROPERTY:		
Utility plant in service-net	2,095,301	2,031,026
Construction work in progress	45,391	37,446
Total	2,140,692	2,068,472
Less: Accumulated depreciation and amortization	669,750	635,349
Net utility plant	1,470,942	1,433,123
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	62,577	69,013
Non-utility properties and investments-net	206,773	195,046
Energy commodity assets	236,644	13,103
Other-net	26,016	20,065
Total other property and investments	532,010	297,227
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	171,037	176,682
Conservation programs	49,114	53,338
Unamortized debt expense	28,414	23,978
Prepaid power purchases	5,273	18,134
Other-net	28,250	32,460
Total deferred charges	282,088	304,592
TOTAL	$3,253,636	$2,411,785
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 406,457	$ 154,312
Energy commodity liabilities	330,957	70,135
Taxes and interest accrued	38,628	35,705
Other	88,151	79,586
Total current liabilities	864,193	339,738
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	34,815	25,515
Deferred revenue (Note 1)	145,124	--
Energy commodity liabilities	207,948	10,556
Deferred income taxes	357,702	352,749
Other deferred credits	11,571	17,230
Total non-current liabilities and deferred credits	757,160	406,050
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,632,283	1,665,997
COMMITMENTS AND CONTINGENCIES (Notes 9, 12 and 20)		
TOTAL	$3,253,636	$2,411,785

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

Avista Corporation
At December 31
Thousands of Dollars

	1998	1997
LONG-TERM DEBT:		
First Mortgage Bonds:		
7 1/8% due December 1, 2013	$ 66,700	$ 66,700
7 2/5% due December 1, 2016	17,000	17,000
Secured Medium-Term Notes:		
Series A - 5.95% to 8.06% due 2000 through 2023	211,500	211,500
Series B - 6.20% to 8.25% due 1999 through 2010	150,000	150,000
Total first mortgage bonds	445,200	445,200
Pollution Control Bonds:		
6% Series due 2023	4,100	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.57% due 1999 through 2007	38,500	52,500
Series B - 6.75% to 8.23% due 1999 through 2023	115,000	115,000
Series C - 5.99% to 6.88% due 2007 through 2028	84,000	--
Total unsecured medium-term notes	237,500	167,500
Notes payable (due within one year) to be refinanced	--	108,500
Other	43,222	36,885
Total long-term debt	730,022	762,185
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	50,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities	110,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$8.625 Series I; 0 and 100,000 shares outstanding ($100 stated value)	--	10,000
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	35,000	45,000
CONVERTIBLE PREFERRED STOCK:		
Not subject to mandatory redemption:		
$12.40 Convertible Series L; 1,540,460 shares outstanding ($182.80 stated value)	269,227	--
Total convertible preferred stock	269,227	--
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized;		
40,453,729 and 55,960,360 shares outstanding	381,401	594,852
Note receivable from employee stock ownership plan	(9,295)	(9,750)
Capital stock expense and other paid in capital	(4,176)	(10,143)
Other comprehensive income	(341)	2,077
Retained earnings	120,445	171,776
Total common equity	488,034	748,812
TOTAL CAPITALIZATION	$ 1,632,283	$ 1,665,997

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Increase (Decrease) in Cash and Cash Equivalents

Avista Corporation
For the Years Ended December 31
Thousands of Dollars

	1998	1997	1996
OPERATING ACTIVITIES:			
Net income	$ 78,139	$ 114,797	$ 83,453
NON-CASH ITEMS INCLUDED IN NET INCOME:			
Depreciation and amortization	70,547	69,893	72,097
Provision for deferred income taxes	10,402	37,122	12,505
Allowance for equity funds used during construction	(1,283)	(1,323)	(1,072)
Power and natural gas cost deferrals and amortizations	(3,512)	(16,470)	666
Monetization of contract			
Deferred revenues and other-net	(6,313)	(389)	(215)
(Increase) decrease in working capital components:			
Sale of customer accounts receivables-net	(15,000)	--	--
Receivables and prepaid expense	(246,873)	(39,733)	(26,333)
Materials & supplies, fuel stock and natural gas stored	9,524	(8,050)	7,741
Payables and other accrued liabilities	246,208	55,163	21,618
Other	(17,336)	13,774	7,103
Monetization of contract	143,400	--	--
NET CASH PROVIDED BY OPERATING ACTIVITIES	267,903	224,784	177,563
INVESTING ACTIVITIES:			
Construction expenditures (excluding AFUDC-equity funds)	(92,942)	(89,016)	(91,279)
Other capital requirements	(14,920)	(11,696)	(1,399)
(Increase) decrease in other noncurrent balance sheet items-net	27,266	(3,765)	18,565
Proceeds from sale of subsidiary investments	16,385	11,606	--
Assets acquired and investments in subsidiaries	(52,780)	(43,308)	(29,225)
NET CASH USED IN INVESTING ACTIVITIES	(116,991)	(136,179)	(103,338)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	(108,500)	23,500	55,500
Proceeds from issuance of preferred trust securities	--	110,000	--
Proceeds from issuance of long-term debt	84,000	20,000	--
Redemption and maturity of long-term debt	(14,000)	(51,500)	(38,000)
Redemption of preferred stock	(10,000)	(70,000)	(20,000)
Sale (repurchase) of common stock	(1,475)	--	216
Cash dividends paid	(64,548)	(75,329)	(77,318)
Other-net	5,854	(22,894)	8,424
NET CASH USED IN FINANCING ACTIVITIES	(108,669)	(66,223)	(71,178)
NET INCREASE IN CASH & CASH EQUIVALENTS	42,243	22,382	3,047
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	30,593	8,211	5,164
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 72,836	$ 30,593	$ 8,211
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period:			
Interest	$ 64,402	$ 63,608	$ 56,893
Income taxes	40,716	29,132	49,447
Noncash financing and investing activities:			
Property purchased under capitalized leases	1,209	4,521	4,356
Notes receivable in exchange for land	--	--	29,913
Net unrealized holding gains (losses)	--	(5,050)	(13,680)
Notes receivable for sale of investment	25,000	--	--
Common stock and retained earnings transfer to preferred stock	276,821	--	--

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation
For the Years Ended December 31
Thousands of Dollars

	1998	1997	1996
OPERATING REVENUES:			
Energy Delivery	$ 409,683	$ 380,532	$ 380,428
Generation and Resources	639,529	511,133	418,566
National Energy Trading and Marketing	2,409,920	247,646	116
Non-energy	232,292	164,010	145,847
Intersegment eliminations	(7,440)	(1,149)	--
Total operating revenues	$ 3,683,984	$ 1,302,172	$ 944,957
RESOURCE COSTS:			
Energy Delivery:			
Natural gas purchased for resale	$ 109,182	$ 93,880	$ 96,585
PCA and other	(2,586)	(2,050)	1,151
Generation and Resources:			
Power purchased	469,824	309,439	190,040
Fuel for generation	44,281	34,461	40,578
Other	47,675	50,694	50,237
National Energy Trading and Marketing:			
Cost of sales	2,360,110	232,389	--
Intersegment eliminations	(7,440)	(1,081)	--
Total resource costs (excluding Non-energy)	$ 3,021,046	$ 717,732	$ 378,591
GROSS MARGINS:			
Energy Delivery	$ 303,087	$ 288,702	$ 282,692
Generation and Resources	77,749	116,539	137,711
National Energy Trading and Marketing	49,810	15,257	116
Total gross margins (excluding Non-energy)	$ 430,646	$ 420,498	$ 420,519
OPERATIONS AND MAINTENANCE EXPENSES:			
Energy Delivery	$ 60,847	$ 59,138	$ 74,675
National Energy Trading and Marketing	2,173	2,173	73
Non-energy	166,600	117,215	106,623
Total operations and maintenance expenses	$ 229,620	$ 178,526	$ 181,371
ADMINISTRATIVE AND GENERAL EXPENSES:			
Energy Delivery	$ 53,643	$ 46,688	$ 47,664
Generation and Resources	16,050	16,312	15,339
National Energy Trading and Marketing	26,720	10,442	1,844
Non-energy	33,358	23,169	12,125
Total administrative and general expenses	$ 129,771	$ 96,611	$ 76,972
DEPRECIATION AND AMORTIZATION EXPENSES:			
Energy Delivery	$ 34,436	$ 32,483	$ 33,875
Generation and Resources	25,102	25,432	27,899
National Energy Trading and Marketing	970	442	--
Non-energy	10,039	11,536	10,323
Total depreciation and amortization expenses	$ 70,547	$ 69,893	$ 72,097
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):			
Energy Delivery	$ 116,944	$ 113,745	$ 89,447
Generation and Resources	26,209	64,613	84,211
National Energy Trading and Marketing	19,922	2,191	(1,801)
Non-energy	9,745	8,984	15,064
Intersegment eliminations	--	(69)	--
Total income from operations	$ 172,820	$ 189,464	$ 186,921

	1998	1997	1996
INCOME AVAILABLE FOR COMMON STOCK:			
Energy Delivery and Generation and Resources .	$ 47,898	$ 95,385	$ 54,426
National Energy Trading and Marketing	12,064	2,488	(1,161)
Non-energy	9,778	11,532	22,210
Total income available for common stock	$ 69,740	$ 109,405	$ 75,475
ASSETS:			
Energy Delivery	$ 1,120,323	$ 1,051,585	$ 1,014,451
Generation and Resources	619,086	620,142	683,599
Other utility	265,526	255,012	223,379
National Energy Trading and Marketing	957,421	214,630	899
Non-energy	291,280	270,416	254,970
Total assets	$ 3,253,636	$ 2,411,785	$ 2,177,298
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):			
Energy Delivery	$ 76,587	$ 75,499	$ 80,095
Generation and Resources	15,708	11,676	8,726
National Energy Trading and Marketing	2,985	4,056	--
Non-energy	10,990	7,951	2,339
Total capital expenditures	$ 106,270	$ 99,182	$ 91,160

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Avista Corporation (Avista Corp. or the Company), formerly The Washington Water Power Company, was incorporated in the State of Washington in 1889, and operates as a regional utility providing electric and natural gas sales and services and as a national entity providing both energy and non-energy products and services. The utility portion of the Company, doing business as Avista Utilities, consists of two lines of business which are subject to state and federal price regulation - -- (1) Energy Delivery and (2) Generation and Resources. The national businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

Changes underway in the utility and energy industries are creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company is shifting its strategic direction to growth in order to achieve its goal of becoming a diversified North American energy company.

The Company's growth strategy will expose the Company to risks associated with rapid expansion, challenges in recruiting and retaining qualified personnel, risks associated with acquisitions and joint ventures and increasing competition. In addition, growth in the energy trading and marketing business will expose the Company to increased financial and credit risks associated with commodity trading activities. The Company believes that its extensive experience in the electric and natural gas business, coupled with its strong management team, will allow the Company to effectively manage its transition to a diversified North American energy company.

The Energy Delivery line of business includes transmission and distribution services for retail electric operations, all utility natural gas operations, and other energy products and services. Usage by retail customers varies from year to year primarily as a result of weather conditions, customer growth, the economy in the Company's service area, conservation efforts, appliance efficiency and other technology.

The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas sales trading and wholesale marketing primarily to other utilities and power brokers in the western United States. Energy trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Generation and Resources manages the Company's electric energy resource portfolio, which is used to serve Energy Delivery's retail electric customers and Generation and Resources' wholesale electric customers. In managing the electric energy resource portfolio, Generation and Resources seeks to optimize the availability and operations of generation resources. Revenues and the cost of electric power purchases vary from year to year depending on the electric wholesale power market, which is affected by several factors, including the availability of water for hydroelectric generation, the availability of base load plants in the region, marginal fuel prices and the demand for power in other areas of the country. Other factors affecting the wholesale power market include lower unit margins on new sales contracts than were realized in the past, fewer long-term power contracts being entered into, deregulation of the electric utility industry and competition from low cost generation being developed by independent power producers.

Avista Capital is the parent company to the National Energy Trading and Marketing and Non-energy businesses. The National Energy Trading and Marketing businesses are conducted by Avista Energy, Avista Advantage and Avista Power. Avista Energy focuses on commodity trading, energy marketing and other related businesses on a national basis. Avista Energy's business is affected by several factors, including the demand for and availability of power throughout the United States, lower unit margins on new sales contracts, fewer long-term power contracts being entered into, marginal fuel prices and deregulation of the electric utility industry. Avista Advantage provides a variety of energy-related products and services to commercial and industrial customers on a national basis. Its primary product lines include consolidated billing, resource accounting, energy analysis and load profiling. Avista Power was formed in December 1998 to develop and own generation assets primarily in support of Avista Energy. Avista Power operations had no impact on 1998 earnings.

The Non-energy business is conducted primarily by Pentzer Corporation (Pentzer), which is the parent company to the majority of the Company's Non-energy businesses. Pentzer's business strategy is such that its earnings result from both transactional and non-transactional earnings. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or individual company from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies.

BASIS OF REPORTING

The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in the consolidation. The accompanying financial statements include

the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants (See Note 6). The financial activity of each of the Company's lines of business is reported in the "Schedule of Information by Business

Segments." Such information is an integral part of these financial statements.

The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that directly affect the reported amounts of assets, liabilities, revenues and expenses.

ALLOCATION OF REVENUES AND EXPENSES FOR REPORTING BUSINESS SEGMENTS

A portion of the utility's revenues and expenses have been allocated between the two business segments in order to report results of operations by the individual lines of business - (1) Energy Delivery and (2) Generation and Resources. The Energy Delivery business reports the results of the Company's transmission and distribution services for retail electric operations and all natural gas operations. Costs associated with electric energy commodities, such as purchased power expense, as well as the revenues attributable to the recovery of such costs from retail customers, have been eliminated from the Energy Delivery line of business and are reflected in the results of the Generation and Resources line of business. The transfer of revenues between the two utility lines of business occurs through the use of a transfer price, primarily based on cost of production studies, that is associated with the sale of a kilowatthour of electricity. The results of all natural gas operations are included in the Energy Delivery line of business because natural gas trackers allow natural gas costs to pass through within that line of business without the commodity prices having a material income effect. The Generation and Resources line of business includes the generation and production of electric energy, and short- and long-term electric and natural gas commodity trading and wholesale marketing primarily to other utilities and power brokers in the western United States.

SYSTEM OF ACCOUNTS

The accounting records of the Company's utility operations are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the appropriate state regulatory commissions.

REGULATION

The Company is subject to state regulation in Washington, Idaho and Montana for its electric operations. Natural gas operations are regulated in Washington, Idaho, Oregon and California. The Company is subject to regulation by the FERC with respect to its wholesale electric transmission rates and the natural gas rates charged for the release of capacity from the Jackson Prairie Storage Project.

OPERATING REVENUES

The Company accrues estimated unbilled revenues for electric and natural gas sales and services provided through month-end. Avista Energy follows the mark-to-market method of accounting for energy contracts entered into for trading and price risk management purposes. Avista Energy recognized revenue based on the change in the market value of outstanding derivative commodity sales contracts, net of future servicing costs and reserves, in addition to revenue related to physical and financial contracts that have matured.

OTHER INCOME (DEDUCTIONS)--NET

Other income (deductions)-net is composed of the following items:

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(Thousands of Dollars)		
Interest income	$ 9,560	$ 6,392	$ 5,760
Capitalized interest (debt)	1,592	1,549	1,290
Gain (loss) on property dispositions	12	(1,222)	(152)
Minority interest	296	(574)	(1,193)
Capitalized interest (equity)	1,283	1,323	1,072
Other	(2,949)	(13,341)	(5,586)
Total	$ 9,794	$ (5,873)	$ 1,191

EARNINGS PER SHARE

Financial Accounting Standard (FAS) No. 128, "Earnings Per Share," became effective in the fourth quarter of 1997 and requires two presentations of earnings per share - "basic" and "diluted." Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible stock, were exercised or converted into common stock that then shared in the earnings of the Company. See Note 18 for more information regarding the EPS calculations.

UTILITY PLANT

The cost of additions to utility plant, including an allowance for funds used during construction and replacements of units of property and betterments, is capitalized. Costs of depreciable units of property retired plus costs of removal less salvage are charged to accumulated depreciation.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

The Allowance for Funds Used During Construction (AFUDC) represents the cost of both the debt and equity funds used to finance utility plant additions during the construction period. In accordance with the uniform system of accounts prescribed by regulatory authorities, AFUDC is capitalized as a part of the cost of utility plant and is credited currently as a noncash item to Other Income (see Other Income above). The Company generally is permitted, under established regulatory rate practices, to recover the capitalized AFUDC, and a fair return thereon, through its inclusion in rate base and the provision for depreciation after the related utility plant has been placed in service. Cash inflow related to AFUDC does not occur until the related utility plant investment is placed in service.

The effective AFUDC rate was 10.67% in 1998, 1997 and 1996. The Company's AFUDC rates do not exceed the maximum allowable rates as determined in accordance with the requirements of regulatory authorities.

DEPRECIATION

For utility operations, depreciation provisions are estimated by a method of depreciation accounting utilizing unit rates for hydroelectric plants and composite rates for other properties. Such rates are designed to provide for retirements of properties at the expiration of their service lives. The rates for hydroelectric plants include annuity and interest components, in which the interest component is 6%. For utility operations, the ratio of depreciation provisions to average depreciable property was 2.60% in 1998, 2.59% in 1997 and 2.58% in 1996.

The average service lives and remaining average service lives, respectively, for the following broad categories of property are: electric thermal production - 35 and 18 years; hydroelectric production - 100 and 80 years; electric transmission - - 60 and 29 years; electric distribution - 40 and 32 years; and natural gas distribution property - 44 and 31 years.

CASH AND CASH EQUIVALENTS

For the purposes of the Consolidated Statements of Cash Flows, the Company considers all temporary investments with an initial maturity of three months or less to be cash equivalents.

TEMPORARY INVESTMENTS

Investments in debt and marketable equity securities are classified as "available for sale" and are recorded at fair value. Investments totaling $4.3 million and $5.8 million are included on the Consolidated Balance Sheets at December 31, 1998 as other property and investments and current assets, respectively. Investments totaling $28.2 million and $22.6 million are included on the Consolidated Balance Sheets at December 31, 1997 as other property and investments and current assets, respectively. Unrealized investment gains, as of December 31, 1998 and 1997, of $0.02 million and $2.1 million, respectively, net of taxes, are reflected as a component of other comprehensive income.

DEFERRED CHARGES AND CREDITS

The Company prepares its financial statements in accordance with the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation." A regulated enterprise can prepare its financial statements in accordance with FAS No. 71 only if (i) the enterprise's rates for regulated services are established by or subject to approval by an independent third-party regulator, (ii) the regulated rates are designed to recover the enterprise's cost of providing the regulated services and (iii) in view of demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. FAS No. 71 requires a cost-based, rate-regulated enterprise to reflect the impact of regulatory decisions in its financial statements. In certain circumstances, FAS No. 71 requires that certain costs and/or obligations (such as incurred costs not currently recovered through rates, but expected to be so recovered in the future) be reflected in a deferral account in the balance sheet and not be reflected in the statement of income or loss until matching revenues are recognized. If at some point in the future the Company determines that it no longer meets the criteria for continued application of FAS No. 71 to all or a portion of the Company's regulated operations, the Company could be required to write off its regulatory assets and could be precluded from the future deferral in the Consolidated Balance Sheet of costs not recovered through rates at the time such costs were incurred, even if such costs were expected to be recovered in the future.

The Company's primary regulatory assets include Investment in Exchange Power, conservation programs, deferred income taxes, the provision for postretirement benefits and debt issuance and redemption costs. Those items without a specific line on the Consolidated Balance Sheets are included in Deferred Charges - Other-net. Deferred credits include natural gas deferrals, unrecovered purchased gas costs and the gain on the general office building sale/leaseback which is being amortized over the life of the lease, and are included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

DEFERRED REVENUES

In December 1998, the Company received cash proceeds of $143.4 million from the

monetization of a contract in which the Company assigned and transferred certain rights under a long-term power sales contract to a funding trust. The proceeds were recorded as deferred revenue and are being amortized into revenues over the 16-year period of the long-term sales contract.

POWER AND NATURAL GAS COST ADJUSTMENT PROVISIONS

The Company has a power cost adjustment mechanism (PCA) in Idaho which allows the Company to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and Public Utility Regulatory Policies Act of 1978 (PURPA) contracts. Rate changes are triggered when the deferred balance reaches $2.2 million. A $3.1 million (2.7%) rebate was effective February 1, 1999, which will expire January 31, 2000. The following surcharges and rebates were in effect during the past three years: a $2.7 million (2.4%) rebate effective June 1, 1998, which will expire May 31, 1999; a $2.6 million (2.3%) rebate effective September 1, 1997, which expired August 31, 1998; a $2.6 million (2.4%) rebate effective June 1, 1997, which expired May 31, 1998; a $2.5 million (2.3%) rebate effective September 1, 1996, which expired August 31, 1997; and a $2.3 million (2.4%) surcharge effective September 1, 1995, which expired August 31, 1996. The rebates balance and the deferred balance are included in the Current Liabilities - - Other and Non-Current Liabilities and Deferred Credits - Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets.

Under established regulatory practices, the Company is also allowed to adjust its natural gas rates from time to time to reflect increases or decreases in the cost of natural gas purchased. Differences between actual natural gas costs and the natural gas costs allowed in rates are deferred and charged or credited to expense when regulators approve inclusion of the cost changes in rates. In Oregon, regulatory provisions include a sharing of benefits and risks associated with changes in natural gas prices, as well as a sharing of benefits if certain threshold earnings levels are exceeded. The balance is included on the Consolidated Balance Sheets as Non-current Liabilities and Deferred Credits - Other Deferred Credits.

INCOME TAXES

The Company and its eligible subsidiaries file consolidated federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations on a stand-alone basis. The Company's federal income tax returns have been examined with all issues resolved, and all payments made, through the 1994 return.

STOCK-BASED COMPENSATION

Compensation cost for stock options is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Restricted stock is recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. The Company accounts for its stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" rather than using the fair-value-based method of accounting for stock-based employee compensation plans as prescribed under FAS No. 123, "Accounting for Stock-Based Compensation." However, the Company has adopted the disclosure requirements of FAS No. 123. See Note 20 for more information about the Company's stock-based compensation plans.

OTHER COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted FAS No. 130, "Reporting Comprehensive Income," which establishes new rules for the reporting and display of comprehensive income (net income plus all other changes in net assets from nonowner sources) and its components. The adoption had no impact on the Company's net income or stockholders' equity. Prior year financial statements have been reclassified to conform to these requirements. The following table reflects the accumulated balances of other comprehensive income:

	Unrealized Investment Gain/(Loss)	Foreign Currency Translation Adjustment	Comprehensive Income
Balance at January 1, 1996	$19,220	$	19,220
Unrealized investment gain/(loss), net of tax of $4,769	(8,856)		(8,856)
Less: reclassification adjustment, net of tax of $2,510	(4,660)		(4,660)
Balance at December 31, 1996	5,704		5,704
Unrealized investment gain/(loss), net of tax of $810	1,504		1,504
Less: reclassification adjustment, net of tax of $2,762	(5,131)		(5,131)
Balance at December 31, 1997	2,077		2,077
Unrealized investment gain/(loss), net of tax of $1,105	(2,052)		(2,052)
Foreign currency translation adjustment		(366)	(366)
Balance at December 31, 1998	$ 25	$ (366)	$ (341)

CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT

Assets and liabilities of one of Pentzer's portfolio companies are denominated in Canadian dollars and translated to U. S. dollars at exchange rates in effect on the balance sheet date. Revenues, costs and expenses for the company are translated using an average rate. Cumulative translation adjustments resulting from this process are reflected as a component of other comprehensive income in the shareholders' equity section in the Consolidated Statements of Capitalization.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued FAS No. 132, entitled "Employers' Disclosures about Pensions and Other Postretirement Benefits," which is effective for fiscal years beginning after December 15, 1997. This statement revises disclosures, but does not change the measurement or recognition of the plans. The Company adopted FAS No. 132 in 1998 and the required disclosure can be found in Note 7.

The FASB issued FAS No. 133, entitled "Accounting for Derivative Instruments and Hedging Activities" which will be effective for fiscal years beginning after June 15, 1999. The statement requires that all derivative financial instruments be recognized as either assets or liabilities on the company's balance sheets at fair value. The accounting for changes in the fair value of a derivative will depend on the intended use of the derivative and the resulting designation. Avista Energy currently accounts for derivative commodity instruments entered into for trading purposes using the mark-to-market method of accounting, in compliance with EITF 98-10, "Accounting for Energy Trading and Risk Management Activities." The Company is in the process of researching the statement and its possible impact on the Company's financial position and results of operations.

RECLASSIFICATIONS

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

NOTE 2. ACCOUNTS RECEIVABLE SALE

In July 1997, WWP Receivables Corp. (WWPRC) was incorporated as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Subsequently, WWPRC and the Company have entered into an agreement whereby WWPRC can sell without recourse, on a revolving basis, up to $80.0 million in those receivables. WWPRC is obligated to pay fees which approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. At December 31, 1998 and 1997, $25.0 million and $40.0 million, respectively, in receivables had been sold pursuant to the agreement, which qualify as sales of assets under FAS No. 125.

NOTE 3. ENERGY COMMODITY TRADING

The Company's energy-related businesses are exposed to risks relating to changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, the Company utilizes electric, natural gas and related derivative commodity instruments, such as forwards, futures, swaps and options, and Avista Energy engages in the trading of such instruments. The Company and Avista Energy have adopted policies and procedures to manage the risks inherent these activities and have established a comprehensive Risk Management Committee, separate from the units that create such risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures.

GENERATION AND RESOURCES

The Company protects itself against price fluctuations on electric energy and natural gas by limiting the aggregate level of net open positions which are exposed to market price changes and through the use of electric, natural gas and related derivative commodity instruments for hedging purposes. The net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily and weekly reporting to management of potential financial exposure. The Risk Management Committee has limited the types of commodity instruments the Company may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. Commodity instruments are not generally held by the Company for speculative trading purposes. Gains and losses related to derivative commodity instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased or purchased power expense, as the case may be). At December 31, 1998 and 1997, the Company's derivative commodity instruments outstanding were immaterial.

NATIONAL ENERGY TRADING AND MARKETING

Avista Energy purchases natural gas and electricity directly from producers and other trading companies, and its customers include commercial and industrial end-users, electric utilities, natural gas distribution companies, and other trading companies. Avista Energy's marketing and energy risk management services are provided through the use of a variety of derivative commodity contracts to purchase or supply natural gas and electric energy at specified delivery points and at specified future dates. Avista Energy also trades natural gas and electricity derivative financial instruments on national exchanges and through other unregulated exchanges and brokers from whom these commodity derivatives are available, and therefore experiences net open positions in terms of price, volume, and specified delivery point.

The open position exposes Avista Energy to the risk that fluctuating market prices may adversely impact its financial position or results of operations. However, the net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate daily earnings at risk as well as total Value-at-Risk (VAR) measurement.

Derivative commodity instruments sold and purchased by Avista Energy include: forward contracts, involving physical delivery of an energy commodity; futures contracts, which involve the buying or selling of natural gas, electricity or other energy-related commodities at a fixed price; over-the-counter swap agreements which require Avista Energy to receive or make payments based on the difference between a specified price and the actual price of the underlying commodity; and options, which mitigate price risk by providing for the right, but not the requirement, to buy or sell energy-related commodities at a fixed price.

Foreign currency risks associated with the fair value of the energy commodity portfolio are managed using a variety of financial instruments, including forward rate agreements.

Avista Energy's trading activities are subject to mark-to-market accounting, under which changes in the market value of outstanding electric, natural gas and related derivative commodity instruments are recognized as gains or losses in the period of change. Gains and losses on electric, natural gas and related derivative commodity instruments utilized for trading are recognized in income on a current basis (the mark-to-market method) and are included on the Consolidated Statements of Income in operating revenues or resource costs, as appropriate, and on the Consolidated Balance Sheets as current or non-current energy commodity assets or liabilities. Contracts in a receivable position, as well as the options held, are reported as assets. Similarly, contracts in a payable position, as well as options written, are reported as liabilities. Cashflows are recognized during the period of settlement.

Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity (or currency) or a variable amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity (or currency) or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at December 31, 1998 are set forth below (volumes in thousands of mmBTUs and MWhs, dollars in thousands):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	755,714,915	792,456,145	5
Electric	70,921,632	62,018,852	10
Financial products			
Foreign currency	--	$ 15,691	5

At December 31, 1998, Avista Energy also had sales and purchase commitments associated with contracts based on market prices totaling 898,316,063 mmBTUs, with terms extending up to 12 years. Fixed index electric transactions totaled 1,875,576 MWhs, with terms extending up to 10 years.

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

Fair Value The fair value of Avista Energy's derivative commodity instruments outstanding at December 31, 1998, and the average fair value of those instruments held during the year are set forth below (dollars in thousands):

	Fair Value as of December 31, 1998				Average Fair Value for the year ended December 31, 1998			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	$139,400	$102,271	$143,201	$ 92,161	$ 94,918	$ 35,326	$ 95,959	$ 31,982
Electric	195,824	134,373	187,756	115,787	123,053	110,170	116,593	99,754
Total	$335,224	236,644	$330,957	$207,948	$217,971	$145,496	$212,552	$131,736

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of December 31, 1998 was approximately three months. The weighted average term of Avista Energy's electric derivative commodity instruments at year-end was approximately ten months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk from December 31, 1997 to December 31, 1998 was $22.8 million and is included on the Consolidated Statements of Income in operating revenues.

MARKET RISK

The Company manages, on a portfolio basis, the market risks inherent in its activities subject to parameters established by its Risk Management Committee. Market risks are monitored by the Risk Management Committee to ensure compliance with the Company's stated risk management policies. The Company measures the risk in its portfolio on a daily basis in accordance with value-at-risk and other risk methodologies established by the Risk Management Committee. The quantification of market risk using value-at-risk provides a consistent measure of risk across diverse energy markets and products.

CREDIT RISK

The Company is exposed to credit risk in the event of nonperformance by customers or counterparties of their contractual obligations. The concentration of customers and/or counterparties may impact overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions. However, the Company maintains credit policies with regard to their customers and counterparties that management believes significantly minimize overall credit risk. These policies include an evaluation of potential customers' and counterparties' financial condition and credit rating, collateral requirements or other credit enhancements such as letters of credit or parent company guarantees, and the use of standardized agreements which allow for the netting or offsetting of positive and negative exposures associated with a single counterparty. The Company maintains credit reserves which are based on management's evaluation of the credit risk of the overall portfolio. Based on these policies, exposures and the credit reserves, the Company does not anticipate a materially adverse effect on financial position or results of operations as a result of customer or counterparty nonperformance. New York Mercantile Exchange traded futures and option contracts are financially guaranteed by the Exchange and have nominal credit risk.

Avista Energy has concentrations of suppliers and customers in the electric and natural gas industries, including electric utilities, natural gas distribution companies and other energy marketing and trading companies. In addition, Avista Energy has concentrations of credit risk related to geographic location. Avista Energy operates in North America, principally within the West and Mid-West United States and Western Canada. These concentration of counterparties and concentrations of geographic location may impact Avista Energy's overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

NOTE 4. NATIONAL ENERGY TRADING AND MARKETING EQUITY INVESTMENT

Effective November 30, 1998, Avista Energy sold its 50% ownership interest in Howard/Avista Energy LLC to H&H Star Energy, Inc. The sales price, which represented Avista Energy's equity investment, was $25 million in the form of a short-term unsecured note receivable from H&H Star Energy, Inc., and is guaranteed by H&H Star Energy, Inc.'s parent company, Howard Publications, Inc. The note is due April 30, 1999.

The Company's initial equity investment in Howard/Avista Energy, LLC was $25 million and the investment in the net assets of the unconsolidated subsidiary amounted to $26.8 million at December 31, 1997. Dividends of $0.7 million were received from Howard/Avista Energy, LLC in 1998. Avista Energy's pre-tax equity in earnings of Howard/Avista Energy LLC were $(1.0) million and $1.8 million for the eleven months ended November 30, 1998 and the five months ended December 31, 1997, respectively.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

The year-end balances of the major classifications of property, plant and equipment are detailed in the following table (thousands of dollars):

	AT DECEMBER 31,	
	1998	1997
Energy Delivery:		
Electric distribution	$ 593,787	$ 567,552
Electric transmission	266,344	262,393
Natural gas underground storage	18,732	18,646
Natural gas distribution	352,332	329,232
Natural gas transmission	3,217	3,059
Construction work in progress (CWIP) and other	176,022	163,949
Energy Delivery total	1,410,434	1,344,831
Generation and Resources:		
Electric production	709,144	702,092
CWIP and other	21,114	21,549
Generation and Resources total	730,258	723,641
Total utility	2,140,692	2,068,472
National Energy Trading and Marketing	7,304	4,345
Non-energy	37,749	44,831
Total	$2,185,745	$2,117,648

National Energy Trading and Marketing's and Non-energy's plant, property and equipment under capital leases totaled $13.3 million and $12.9 million and the associated accumulated depreciation totaled $2.8 million and $2.6 million in 1998 and 1997, respectively.

NOTE 6. JOINTLY OWNED ELECTRIC FACILITIES

The Company has investments in jointly owned generating plants. Financing for the Company's ownership in the projects is provided by the Company. The Company's share of related operating and maintenance expenses for plants in service is included in corresponding accounts in the Consolidated Statements of Income. See Note 17 for additional information related to potential impacts of Clean Air Act Amendments on these plants. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1998:

			COMPANY'S CURRENT SHARE OF				
Project	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
			(Thousands of Dollars)				
Centralia	1,330,000	Coal	15%	$ 57,536	$ 38,352	$ 19,184	$--
Colstrip 3 & 4	1,556,000	Coal	15	275,976	114,927	161,049	$--

NOTE 7. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has a pension plan covering substantially all of its regular full-time employees. Certain of the Company's subsidiaries also participate in this plan. Individual benefits under this plan are based upon years of service and the employee's average compensation as specified in the Plan. The Company's funding policy is to contribute annually an amount equal to the net periodic pension cost, provided that such contributions are not less than the minimum amounts required to be funded under the Employee Retirement Income Security Act, nor more than the maximum amounts which are currently deductible for tax purposes. Pension fund assets are invested primarily in marketable debt and equity securities. The Company also has other plans which cover the executive officers and key managers.

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. The Company accrues the estimated cost of postretirement benefit payments during the years that employees provide services and allows recognition of the unrecognized transition obligation in the year of adoption or the amortization of such obligation over a period of up to twenty years. The Company elected to amortize this obligation of approximately $34,500,000 over a period of twenty years, beginning in 1993.

The following table sets forth the pension and health care plan disclosures:

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
	(Thousands of Dollars)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 155,565	$ 143,237	$ 31,802	$ 30,977
Service cost	4,982	4,761	585	637
Interest cost	11,247	10,601	2,100	2,247
Amendments	5,454	--	--	(1,389)
Actuarial loss	10,088	4,930	108	1,359
Benefits paid	(8,747)	(7,964)	(2,250)	(2,029)
Benefit obligation at end of year	$ 178,589	$ 155,565	$ 32,345	$ 31,802
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 166,242	$ 149,846	$ 11,098	$ 5,388
Actual return on plan assets	21,384	21,042	1,374	973
Employer contributions	--	3,318	731	5,016
Benefits paid	(8,747)	(7,964)	(744)	(279)
Fair value of plan assets at end of year	$ 178,879	$ 166,242	$ 12,459	$ 11,098
Funded status	$ 289	$ 10,677	$ (19,886)	$ (20,704)
Unrecognized net actuarial gain	(19,767)	(23,802)	(5,626)	(5,639)
Unrecognized prior service cost	19,455	15,655	--	--
Unrecognized net transition obligation/(asset)	(7,015)	(8,101)	21,467	23,000
Accrued benefit cost	$ (7,038)	$ (5,571)	$ (4,045)	$ (3,343)
ASSUMPTIONS AS OF DECEMBER 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%		
Medical cost trend - initial			5.00%	5.00%
Medical cost trend - ultimate			5.00%	5.00%
Year for ultimate medical cost trend			1998	1997
COMPONENTS OF NET PERIODIC BENEFIT COST				
Service cost	$ 4,982	$ 4,762	$ 585	$ 637
Interest cost	11,247	10,601	2,100	2,247
Expected return on plan assets	(14,768)	(13,152)	(953)	(973)
Transition (asset)/obligation recognition	(1,086)	(1,086)	1,533	1,570
Amortization of prior service cost	1,654	1,365	--	13
Net gain recognition	(562)	(265)	(326)	(248)
Asset gain deferred	--	--	--	336
Net periodic benefit cost	$ 1,467	$ 2,225	$ 2,939	$ 3,582

Assumed health cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1998 by approximately $2.6 million and the service and interest cost by approximately $212,000.

The Company also sponsors an employee savings plan which covers substantially all employees. Employer matching contributinos of $2.8 million, $2.9 million and $2.8 million were expensed in 1998, 1997 and 1996, respectively.

NOTE 8. ACCOUNTING FOR INCOME TAXES

In June 1997, the Company received $81 million from the Internal Revenue Service (IRS) to settle an income tax claim relating to its investment in the terminated nuclear project 3 of the Washington Public Power Supply System (WNP3). The $81 million recovery included $34 million in income taxes the Company overpaid in prior years plus $47 million in accrued interest, which in total contributed $41.4 million, or $0.74 per share, to net income.

The Company had claimed that it realized a loss in 1985 relating to its $195 million investment in WNP3 entitling it to current tax deductions. The IRS, however, originally denied the Company's claim and ruled that the investment should be written off over 32.5 years, the term of a settlement agreement between the Company and the Bonneville Power Administration relating to WNP3. The Company disagreed with this ruling and had been pursuing a reversal for several years. The IRS has now agreed with the Company's position.

The Company entered into settlement agreements with the WUTC and the IPUC in 1987 and 1988 providing for the recovery through retail prices of approximately 60% of the Company's $195 million investment in WNP3. As a result of these agreements, customers have been and will continue to receive the tax benefits relating to the recoverable portion of WNP3 over the recovery periods specified in the settlement agreements. The settlement agreements resulted in a write-off of approximately $75 million of the Company's WNP3 investment, with the entire write-off charged to shareholders. The tax recovery and related accrued interest from the IRS will flow through to the benefit of shareholders. The cash was used to fund new business investment, including growth opportunities in national energy markets, and reduced the need for issuance of long-term debt during 1997.

As of December 31, 1998 and 1997, the Company had recorded net regulatory assets of $171.0 million and $176.7 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) tax credit carryforwards. The net deferred federal income tax liability consists of the following (thousands of dollars):

	1998	1997
Deferred tax liabilities:		
Differences between book and tax bases of utility plant	$375,881	$368,137
Loss on reacquired debt	4,979	5,504
Other	7,462	5,825
Total deferred tax liabilities	388,322	379,466
Deferred tax assets:		
Reserves not currently deductible	11,727	12,630
Contributions in aid of construction	7,159	6,277
Deferred natural gas credits	--	1,138
Centralia Trust	2,325	2,515
Gain on sale of office building	1,190	1,279
Other	8,219	2,878
Total deferred tax assets	30,620	26,717
Net deferred tax liability	$357,702	$352,749

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations and federal income tax as set forth in the accompanying Consolidated Statements of Income and Retained Earnings is as follows (the current and deferred effective tax rates are approximately the same during all periods):

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(Thousands of Dollars)		
Computed federal income taxes at statutory rate	$ 50,468	$ 60,552	$ 46,103
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	9,929	5,014	23
Prior year audit adjustments	(1,526)	(31,458)	(3,491)
Reserve for WNP3	--	10,402	--
Other	(18,793)	12,500	3,955
Total federal income tax expense*	$ 40,078	$ 57,010	$ 46,590
INCOME TAX EXPENSE CONSISTS OF THE FOLLOWING:			
Federal taxes currently provided	$ 20,094	$ 51,104	$ 37,456
Deferred income taxes	19,984	5,906	9,134
Total federal income tax expense	40,078	57,010	46,590

State income tax expense	3,257	4,065	2,919
Federal and state income taxes	$ 43,335	$ 61,075	$ 49,509

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1997	1996
	(Thousands of Dollars)		
*Federal Income Tax Expense:			
Utility	$ 28,582	$ 50,409	$ 34,866
National Energy Trading and Marketing	7,021	1,415	(625)
Non-energy	4,475	5,186	12,349
Total Federal Income Tax Expense	$ 40,078	$ 57,010	$ 46,590
Federal statutory rate	35%	35%	35%

NOTE 9. LONG-TERM PURCHASED POWER CONTRACTS WITH REQUIRED MINIMUM PAYMENTS

Under fixed contracts with Public Utility Districts (PUD), the Company has agreed to purchase portions of the output of certain generating facilities. Although the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations and maintenance expense in the Consolidated Statements of Income. Information as of December 31, 1998, pertaining to these contracts is summarized in the following table:

	COMPANY'S CURRENT SHARE OF					
	Output	Kilowatt Capability	Annual Costs(1)	Debt Service Costs(2)	Revenue Bonds Outstanding	Contract Expiration Date
			(Thousands of Dollars)			
PUD CONTRACTS:						
Chelan County PUD:						
Rocky Reach Project ...	2.9%	37,000	$ 1,660	$ 817	$ 6,493	2011
Grant County PUD:						
Priest Rapids Project .	6.1	55,000	1,464	854	10,485	2005
Wanapum Project	8.2	75,000	2,289	1,525	15,965	2009
Douglas County PUD:						
Wells Project	3.7	30,000	822	583	6,383	2018
Totals		197,000	$ 6,235	$ 3,779	$ 39,326	

(1) The annual costs will change in proportion to the percentage of output allocated to the Company in a particular year. Amounts represent the operating costs for the year 1998.

(2) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 1998, 1997 and 1996, were $6.2 million, $5.9 million and $5.4 million, respectively. The estimated aggregate amounts of required minimum payments (the Company's share of debt service costs) under the above contracts for the next five years are $3.9 million in 1999, $4.0 million in 2000, $4.0 million in 2001, $5.5 million in 2002 and $5.2 million in 2003 (minimum payments thereafter are dependent on then market conditions). In addition, the Company will be required to pay its proportionate share of the variable operating expenses of these projects.

NOTE 10. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding at December 31, 1998 are as follows:

YEAR ENDING DECEMBER 31	MATURITIES	SINKING FUND REQUIREMENTS	TOTAL
	(Thousands of Dollars)		
1999	$47,500	$ 4,452	$51,952
2000	55,000	4,242	59,242
2001	40,000	3,692	43,692
2002	50,000	3,542	53,542
2003	31,000	3,142	34,142

The sinking fund requirements may be met by certification of property additions at the rate of 167% of requirements. All of the utility plant is subject to the lien of the Mortgage and Deed of Trust securing outstanding First Mortgage Bonds.

In 1998, $84.0 million of Unsecured Medium-Term Notes were issued, while $14.0 million of Unsecured Medium-Term Notes matured or were redeemed. In 1997, $20.0 million of First Mortgage Bonds in the form of Secured Medium-Term Notes were issued, while $26.5 million of Secured Medium-Term Notes and $25.0 million of Unsecured Medium-Term Notes matured or were repurchased. As of December 31, 1998, the Company had remaining authorization to issue up to $89.0 million of Secured Medium-Term Notes, which were issued in January 1999, and $166.0 million of Unsecured Medium-Term Notes.

At December 31, 1998, the Company had no outstanding balances under borrowing arrangements. See Note 11 for details of credit agreements.

Included in other long-term debt are the following items related to non-energy operations (thousands of dollars):

	OUTSTANDING AT DECEMBER 31,	
	1998	1997
Notes payable - variable rates through 2002	$50,288	$40,480
Capital lease obligations	7,176	7,601
Total non-energy	57,464	48,081
Less: current portion	15,165	12,177
Net non-utility long-term debt	$42,299	$35,904

NOTE 11. BANK BORROWINGS

At December 31, 1998, the Company maintained lines of credit with various banks under two separate credit agreements amounting to $200.0 million. The Company has one revolving line of credit, expiring June 29, 1999, which provides a total credit commitment of $125 million. The second revolving credit agreement, which expires on June 29, 2001, provides a total credit commitment of $75 million. The Company pays commitment fees of up to 0.09% per annum on the average daily unused portion of each credit agreement.

In addition, under various agreements with banks, the Company can have up to $100.0 million in loans outstanding at any one time, with the loans available at the banks' discretion. These arrangements provide, if funds are made available, for fixed-term loans for up to 180 days at a fixed rate of interest.

The amount of unused letter of credit available to Avista Corp. for use in Generation and Resources activities totaled $2.5 million at December 31, 1998. This letter of credit expires on February 28, 1999.

Balances and interest rates of bank borrowings under these arrangements were as follows:

	YEARS ENDED DECEMBER 31,	
	1998	1997
	(Thousands of Dollars)	
BALANCE OUTSTANDING AT END OF PERIOD:		
Fixed-term loans	$ --	$60,000
Revolving credit agreement	--	48,500
MAXIMUM BALANCE DURING PERIOD:		
Fixed-term loans	$94,000	$60,000
Revolving credit agreement	51,000	48,500
AVERAGE DAILY BALANCE DURING PERIOD:		
Fixed-term loans	$47,651	$23,737
Revolving credit agreement	21,340	8,981
AVERAGE ANNUAL INTEREST RATE DURING PERIOD:		
Fixed-term loans	5.69%	5.81%
Revolving credit agreement	5.80	5.66
AVERAGE ANNUAL INTEREST RATE AT END OF PERIOD:		
Fixed-term loans	--%	6.20%
Revolving credit agreement	--	6.39

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with a commercial bank in the aggregate amount of $100 million, expiring April 1, 1999. The credit agreement may be terminated by the bank at any time and all extensions of credit under the agreement are payable upon demand, in either case at the bank's sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparts. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum cash component of credit extended by the bank is $30 million, with availability of up to $100 million for the issuance of letters of credit. At December 31, 1998 and 1997, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately $20.2 million and $2.8 million at December 31, 1998 and 1997, respectively. The total amount of unused credit available to the Company at December 31, 1998 was $79.8 million.

Non-energy operations have $54.0 million in short-term borrowing arrangements available. At December 31, 1998 and 1997, $21.4 million and $18.6 million, respectively, were outstanding.

NOTE 12. LEASES

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to thirteen years and expiration dates from 1999 to 2011. Certain of the lease arrangements require the Company, upon the occurrence of specified events, to purchase the leased assets for varying amounts over the term of the lease. The Company's management believes that the likelihood of the occurrence of the specified events under which the Company could be required to purchase the property is remote. Rent expense for the years ended December 31, 1998, 1997 and 1996 was $17.6 million, $16.9 million and $15.2 million, respectively. Future minimum lease payments (in thousands of dollars) required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1998 are estimated as follows:

Year ending December 31:	
1999	$ 9,173
2000	8,356
2001	8,022
2002	7,164
2003	6,573
Later years	32,645
Total minimum payments required	$ 71,933

The Company also has various other cancelable operating leases, which are charged to operating expense, consisting of the Rathdrum combustion turbines, the Company airplane and a large number of small, relatively short-term, renewable agreements for various items, such as office equipment and office space.

The payments under National Energy Trading and Marketing's and Non-energy's capital leases for the next five years are $3.0 million in 1999, $2.4 million in 2000, $1.0 million in 2001, $0.5 million in 2002 and $0.1 million in 2003.

NOTE 13. PREFERRED STOCK

CUMULATIVE PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION:

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its $12.40 Convertible Preferred Stock, Series L. See Note 14 for additional information.

The Company redeemed its $50 million of Flexible Auction Preferred Stock, Series J in August 1997. The dividend rate on this preferred stock was reset every 49 days based on an auction.

CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

Redemption requirements:

$6.95, Series K - On September 15, 2002, 2003, 2004, 2005 and 2006, the Company must redeem 17,500 shares at $100 per share plus accumulated dividends through a mandatory sinking fund. Remaining shares must be redeemed on September 15, 2007. The Company has the right to redeem an additional 17,500 shares on each September 15 redemption date.

There are $3.5 million in mandatory redemption requirements during the 1999-2003 period.

In June 1998, the Company redeemed the final $10 million, or 100,000 shares, of its $8.625 Series I.

NOTE 14. CONVERTIBLE PREFERRED STOCK

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its $12.40 Convertible Preferred Stock, Series L, in exchange for 15,404,595 shares of common stock, on the basis of a one-tenth interest in one share of preferred stock for each share of common stock. The Convertible Preferred Stock, Series L has a liquidation preference of $182.8125 per share.

Unless previously converted into common stock by the Company, on November 1, 2001 each share of the Convertible Preferred Stock, Series L will be converted into (1) ten shares of common stock (subject to antidilution adjustments) and (2) the right to receive an amount, in cash, equal to accrued and unpaid dividends.

The Convertible Preferred Stock, Series L may be converted, at the option of the Company, at any time prior to November 1, 2001, in whole but not in part, into, for each share so converted (1) a number of shares of common stock equal to the Optional Conversion Price then in effect, plus (2) the right to receive an amount, in cash, equal to the accrued and unpaid dividends thereon to but excluding the conversion date, plus (3) the right to receive the Optional Conversion Premium. As used above,

* the "Optional Conversion Price" will be, for each share of Convertible Preferred Stock, Series L so converted, a number of shares of common stock equal to the lesser of (a) the amount of $24 divided by an amount equal to the current market price of the common stock, multiplied by ten and (b) one share of common stock (subject to antidilution adjustments); and

* the "Optional Conversion Premium" will be, for each share of Convertible Preferred Stock, Series L so converted, an amount in cash, initially equal to $20.90, declining by $0.02111 for each day following December 15, 1998 to and including the optional conversion date and equal to zero on and after September 15, 2001; provided, however, that in lieu of delivering such amount in cash, the Company may, at its option, deliver a number of shares of common stock equal to the quotient of such amount divided by an amount equal to the current market price of the common stock.

NOTE 15. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

On January 23, 1997, Avista Capital I, a business trust, issued to the public $60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the

Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of $61,855,675. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

On June 3, 1997, Avista Capital II, a business trust, issued to the public $50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly (initially 6.6875%). The distribution rate paid during 1998 ranged from 6.77734% to 6.13625%, which was the rate outstanding at December 31, 1998. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of $51,547,000. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037.

The Company has guaranteed the payment of distributions on, and redemption price and liquidation amount in respect of, the Preferred Trust Securities to the extent that the Trust has funds available for such payment from the debt securities. Upon maturity or prior redemption of such debt securities, the Trust Securities will be mandatorily redeemed. The Company's Consolidated Statements of Capitalization reflect only the $60 million and $50 million of Preferred Trust Securities, accordingly all intercompany transactions have been eliminated.

NOTE 16. FAIR VALUE OF FINANCIAL SECURITIES

The fair value of the Company's long-term debt (excluding notes payable and other) at December 31, 1998 and 1997 is estimated to be $735.5 million, or 107% of the carrying value and $647.3 million, or 105% of the carrying value, respectively. The fair value of the Company's mandatorily redeemable preferred stock at December 31, 1998 and 1997 is estimated to be $38.5 million, or 110% of the carrying value and $49.8 million, or 111% of the carrying value, respectively. The fair value of the Company's preferred trust securities at December 31, 1998 and 1997 is estimated to be $106.9 million, or 97% of the carrying value and $109.4 million, or 99% of the carrying value, respectively. These estimates are all based on available market information. The fair value of the Company's convertible preferred securities at December 31, 1998 was $301.4 million, or 112%, of the carrying value. This valuation was based on the closing price of the securities on December 31, 1998.

NOTE 17. COMMON STOCK

In April 1990, the Company sold 1,000,000 shares of its common stock to the Trustee of the Investment and Employee Stock Ownership Plan for Employees of the Company (Plan) for the benefit of the participants and beneficiaries of the Plan. In payment for the shares of Common Stock, the Trustee issued a promissory note payable to the Company in the amount of $14,125,000. Dividends paid on the stock held by the Trustee, plus Company contributions to the Plan, if any, are used by the Trustee to make interest and principal payments on the promissory note. The balance of the promissory note receivable from the Trustee ($9.3 million at December 31, 1998) is reflected as a reduction to common equity. The shares of Common Stock are allocated to the accounts of participants in the Plan as the note is repaid. During 1998, the cost recorded for the Plan was $3.7 million. Interest on the note payable to the Company, cash and stock contributions to the Plan and dividends on the shares held by the Trustee were $0.9 million, $2.8 million and $0.9 million, respectively.

In February 1990, the Company adopted a shareholder rights plan, which was subsequently amended, pursuant to which holders of Common Stock outstanding on March 2, 1990, or issued thereafter, have been granted one preferred share purchase right (Right) on each outstanding share of Common Stock. Each Right, initially evidenced by and traded with the shares of Common Stock, entitles the registered holder to purchase one two-hundredth of a share of Preferred Stock of the Company, without par value, at an exercise price of $40, subject to certain adjustments, regulatory approval and other specified conditions. The Rights will be exercisable only if a person or group acquires 10% or more of the Common Stock or announces a tender offer, the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the Common Stock. Upon any such acquisition, each Right would entitle the holder to purchase a number of shares of Common Stock of the Company (or, in the case of a merger of the Company into another person or group, common stock of the acquiring person) having a fair market value equal to twice the exercise price. In no event will the Rights be exercisable by a person which has acquired 10% or more of the Company's Common Stock. The Rights may be redeemed, at a redemption price of $0.005 per Right, by the Board of Directors of the Company at any time until any person or group has acquired 10% or more of the Common Stock. The Rights will expire on February 16, 2000.

During 1992, the Company received authorization to issue 1.5 million shares of Common Stock under a second Periodic Offering Program (POP). No shares were issued under the POP during 1996, 1997 or 1998. At December 31, 1998, 572,400 shares remained authorized but unissued.

The Company has a Dividend Reinvestment and Stock Purchase Plan under which the Company's stockholders may automatically reinvest their dividends and make optional cash payments for the purchase of the Company's Common Stock at current market value.

The Company purchases stock on the open market to fulfill obligations of the 401(K) and Dividend Reinvestment Plans. Sales of Common Stock for 1998, 1997 and 1996 are summarized below (thousands of dollars):

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1	55,960,360	$ 594,852	55,960,360	$ 594,852	55,947,967	$ 594,636
Exchange for preferred stock	(15,404,595)	(213,451)	--	--	--	--
Stock options/restricted stock	(102,036)	--	--	--	--	--
Employee Investment Plan (401-K)	--	--	--	--	--	
Dividend Reinvestment Plan	--	--	--	--	12,393	216
Total issues (exchanges/purchases)	(15,506,631)	(213,451)	--	--	12,393	216
Balance at December 31	40,453,729	$ 381,401	55,960,360	$ 594,852	55,960,360	$ 594,852

NOTE 18. EARNINGS PER SHARE

Average shares outstanding for basic EPS were 54,603,926 in 1998. At December 31, 1998, 1,540,460 shares of $12.40 Convertible Preferred Stock, Series L, which were convertible into 15,404,595 million shares of common stock, were outstanding. All of these potential common shares were excluded from the computation of diluted EPS for 1998 because their inclusion had an antidilutive effect on EPS. Options to purchase 647,900 shares of common stock were outstanding during 1998, but 150,000 shares were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares for the year and, therefore, the effect would be antidilutive. Average number of common shares outstanding for both basic and diluted EPS was 55,960,360 for both 1997 and 1996. Basic and diluted EPS were the same in 1997 and 1996 as the Company did not have any common stock equivalents outstanding in either of those years.

The computation of basic and diluted earnings per common share is as follows (in thousands, except per share amounts):

	1998	1997	1996
Net income	$ 78,139	$114,797	$ 83,453
Less: Preferred stock dividends	8,399	5,392	7,978
Income available for common stock-basic	69,740	109,405	75,475
Convertible Preferred Stock, Series L, dividend requirements	--	--	--
Income available for common stock-diluted	$ 69,740	$109,405	$ 75,475
Weighted-average number of common shares outstanding-basic	54,604	55,960	55,960
Conversion of Convertible Preferred Stock, Series L	--	--	--
Exercise of stock options	54	--	--
Weighted-average number of common shares outstanding-diluted	54,658	55,960	55,960
Earnings per common share			
Basic	$ 1.28	$ 1.96	$ 1.35
Diluted	$ 1.28	$ 1.96	$ 1.35

For additional information regarding the convertible preferred stock and stock option plans, see Notes 14 and 19, respectively.

NOTE 19. STOCK COMPENSATION PLANS

The Company and certain subsidiaries have adopted stock-based compensation plans.

Avista Corp.

In 1998, the Company adopted and shareholders approved an incentive compensation plan, the Long-Term Incentive Plan (Plan). Under the Plan, certain key employees, directors and officers of the Company and its

subsidiaries may be granted stock options, stock appreciation rights, stock awards (including restricted stock) and other stock-based awards and dividend equivalent rights. The Company has made available a maximum of 2.5 million shares of its common stock for grant under the Plan. The shares issued under the Plan will be purchased by the trustee on the open market.

The following summarizes stock options activity for 1998 under the Plan:

	Number of Shares	Exercise Price Range
Granted	589,800	$18.31 - 22.62
Exercised	--	--
Cancelled	--	--
Unexercised options outstanding - December 31, 1998	589,800	
Exercisable Options - December 31, 1998	--	
Option grants vest 25% per year over four years and expire 10 years after issuance.		
Weighted average exercise price of options granted during the year	$ 20.14	
Weighted average fair value of options granted during the year	$ 4.74(1)	

(1) The fair values of these options were estimated at the dates of the grants using a Black-Scholes option pricing model using the following assumptions: dividend yield of 3.01%, expected volatility of 22.19%, risk-free interest rate range of 4.81% to 5.53% depending on the grant date, and an expected life of 7 years.

The Company granted 102,036 shares of restricted common stock under the Plan in 1998. Plan participants are entitled to dividends and to vote their respective shares. The sale or transfer of restricted stock is prohibited during the vesting period except as specified in the award agreements. The value of restricted stock awards is established by the average market price on the date of grant. Restricted stock awarded in 1998 have vesting periods from 4 - 5 years.

Common equity was reduced in the accompanying Consolidated Balance Sheets by the cost of restricted shares acquired by the Plan trustee on the open market. Accordingly, the Company is recording compensation expense ratably over the restriction periods based on the reduction to common equity.

The Company accounts for stock based compensation using APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under this method, compensation cost is recognized on the excess, if any, of the market price of the stock at grant date over the exercise price of the option. As the exercise price for options granted under the Plan was equal to the market price at grant date, no compensation expense has been recorded by the Company in connection this the Plan. In accordance with FAS No. 123, "Accounting for Stock-Based Compensation," compensation expense is determined based on the fair value of the award and recognizes that cost over the service period. Had compensation costs for these plans been determined based on the fair value at the grant dates with FAS No. 123, the Company's net income would have been reduced to the pro forma amounts indicated below:

	1998
Net income (in thousands):	
As reported	$78,139
Pro forma	$76,891(2)
Basic EPS as reported	$1.28
Proforma Basic EPS	$1.25
Diluted EPS as Reported	$1.28
Proforma Diluted EPS	$1.25

(2) Includes pro forma effect of subsidiary companies stock option plans.

Subsidiary Companies

Certain subsidiaries of the Company have adopted employee stock incentive plans under which key employees and directors were granted the opportunity to purchase shares of subsidiary common stock at prices equal to the fair market value as determined by each subsidiary's Board of Directors. Restricted shares are subject to transfer agreements and vest over various periods as defined in the plans. The subsidiaries record compensation expense based on the increase in the adjusted net book value of the shares subject to the plans.

Certain subsidiaries of the Company have adopted employee stock incentive plans under which certain employees and directors of the Company and the subsidiaries are granted options to purchase subsidiary shares at prices no less than the fair market value on the date of grant. Options outstanding under these plans usually become fully

exercisable between three and five years from the date granted and terminate ten years from the date granted. Upon termination of employment, vested options may be exercised and the related subsidiary shares may be, but are not required to be, repurchased by the applicable subsidiary at fair value.

NOTE 20. COMMITMENTS AND CONTINGENCIES

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

NEZ PERCE TRIBE

On December 6, 1991, the Nez Perce Tribe filed an action against the Company in U. S. District Court for the District of Idaho alleging, among other things, that two dams formerly operated by the Company, the Lewiston Dam on the Clearwater River and the Grangeville Dam on the South Fork of the Clearwater River, provided inadequate passage to migrating anadromous fish in violation of rights under treaties between the Tribe and the United States made in 1855 and 1863. The Lewiston and Grangeville Dams, which had been owned and operated by other utilities under hydroelectric licenses from the Federal Power Commission (the "FPC", predecessor of the FERC) prior to acquisition by the Company, were acquired by the Company in 1937 with the approval of the FPC, but were dismantled and removed in 1973 and 1963, respectively. Allegations of actual loss under different assumptions ranged between $425 million and $650 million, together with $100 million in punitive damages.

On November 21, 1994, the Company filed a Motion for Summary Judgment of Dismissal. On March 28, 1996, a U.S. District judge entered a summary judgment in favor of the Company dismissing the complaint. The Tribe filed a notice of appeal to the Ninth Circuit Court of Appeals on April 24, 1996. A mediation conference was held on October 11, 1996. Following the conclusion of that conference, briefing schedules were vacated indefinitely to accommodate a mediation process, which ultimately resulted in a settlement of this matter on January 15, 1999. In accordance with that settlement, the Company will pay the Nez Perce Tribe $2.5 million initially, part of which was already expensed and the remainder deferred for possible future rate recovery. The Company will provide 44 annual payments thereafter in the amount of $835,498 for utility taxes, Tribal employment rights, fees and rights-of-ways, which will be expensed as paid.

OIL SPILL

The Company completed an updated investigation of an oil spill from an underground storage tank that occurred several years ago in downtown Spokane at the site of the Company's steam heat plant. Underground soil testing conducted in 1993 showed that the oil had migrated approximately one city block beyond the steam plant property. The Clean-up Action Plan determined by the Department of Ecology (DOE) is underway, and remediation facilities have been constructed and installed and are being operated.

On August 17, 1995, a lawsuit was filed against the Company in Superior Court of the State of Washington for Spokane County by Davenport Sun International Hotels and Properties, Inc., the owner of a hotel property in downtown Spokane, Washington. The Complaint alleged that the oil released from the Company's Central Steamplant trespassed on property owned by the plaintiff. In addition, the plaintiff claimed that the Steamplant has caused a diminution of value of plaintiff's land. After mediation, the matter was resolved by settlement and compromise, subject to certain conditions. In December 1997, the settlement was restructured, certain amounts were paid, the litigation was dismissed with prejudice, a release was obtained, and other conditions remain to be fulfilled, none of which would affect the dismissal of this action.

The Company pursued recovery from insurers and reached settlement with one of the two insurance carriers. On December 13, 1996, the Company filed a Complaint for declaratory relief and money damages against Underwriters at Lloyds of London (Lloyds), the remaining carrier, in Spokane County Superior Court. The purpose of this action was to seek a declaration of the insurance policies issued to the Company by Lloyds with respect to any liabilities of the Company for environmental damage associated with the oil spill at the Central Steamplant and other environmental remediation efforts. The policies at issue were in effect during the period between 1926 and 1966; thereafter, the Company maintained its policies with a new underwriter, Aegis. The Company's Complaint sought money damages in excess of $16 million. On March 10, 1999, Avista Corp. and Lloyds signed a settlement agreement resolving the claim.

SPOKANE GAS PLANT

The Company is participating with the Washington State Department of Transportation in an environmental study relating to the former Spokane Natural Gas Plant site (which was operated as a coal gasification plant for

approximately 60 years until 1948) acquired by the Company through a merger in 1958. The Company no longer owns the property. Initial core samples taken from the site indicate environmental contamination at the site. On January 15, 1999, the Company received notice from the State of Washington's Department of Ecology that it had been designated as a potentially liable person (PLP) with respect to any hazardous substances located on this site, stemming from the Company's past ownership of the former Gas Plant. In its notice, the DOE stated that it intended to complete an on-going remedial investigation of this site, complete a feasibility study to determine the most effective means of halting or controlling future releases of substances from the site, and implement appropriate remedial measures.

The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. The Company also committed to pursue additional characterization of the site, with more drillings and samples, and is in the process of determining the extent of further work. The Company will be negotiating with the DOE on the remedial measures.

EASTERN PACIFIC ENERGY

On October 9, 1998, Eastern Pacific Energy (Eastern Pacific), an energy aggregator participating in the restructured retail energy market in California, filed suit against the Company and its affiliates, Avista Advantage and Avista Energy in the United States District Court for the Central District of California. Eastern Pacific alleges, among other things, a breach of an oral or implied joint venture agreement whereby the Company agreed to supply not less than 300 megawatts of power to Eastern Pacific's California customers and that Avista Advantage agreed to provide energy-related products and services. The complaint seeks an unspecified amount of damages and also seeks to recover any future profits earned from sales of the aforementioned amount of power to California consumers. The Company and its affiliates intend to vigorously defend against all of the claims.

On December 4, 1998, Avista Advantage, Avista Energy and the Company jointly filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. Following a responsive pleading from the plaintiff, the court took the matter under advisement and notified the parties that a decision will be issued in due course concerning this motion to dismiss.

OTHER CONTINGENCIES

The Company routinely assesses, based on in-depth studies, expert analyses and legal reviews, its contingencies, obligations and commitments for remediation of contaminated sites, including assessments of ranges and probabilities of recoveries from other responsible parties who have and have not agreed to a settlement and recoveries from insurance carriers. The Company's policy is to immediately accrue and charge to current expense identified exposures related to environmental remediation sites based on estimates of investigation, cleanup and monitoring costs to be incurred.

The Company must be in compliance with requirements under the Clean Air Act Amendments (CAAA) by the year 2000 at both the Colstrip and Centralia thermal generating plants, in which the Company maintains an ownership interest. The anticipated share of costs at Colstrip are not expected to have a major economic impact on the Company, but estimates at Centralia are expected to be approximately $35 million, which have been included in the Company's future projected capital expenditures.

The Company has potential liabilities under the Federal Endangered Species Act (ESA) for species of fish that have either already been added to the endangered species list, been listed as "threatened" or been petitioned for listing. Thus far, measures which have been adopted and implemented have had minimal impact of the Company. Future actions to save these, and other as yet unidentified fish or wildlife species, particularly as the Company is relicensing several of its hydroelectric facilities, could impact the Company's operations. It is currently not possible to determine the likely financial impact of any further actions.

The Company has long-term contracts related to the purchase of fuel for thermal generation, natural gas and hydroelectric power. Terms of the natural gas purchase contracts range from one month to five years and the majority provide for minimum purchases at the then effective market rate. The Company also has various agreements for the purchase, sale or exchange of electric energy with other utilities, cogenerators, small power producers and government agencies.

As of December 31, 1998, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 50% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 2002. A local agreement in the South Lake Tahoe area, which represents 7 employees, also expires on March 25, 1999. The Company and the union are currently negotiating this agreement.

NOTE 21. ACQUISITIONS AND DISPOSITIONS

In April 1998, Pentzer completed the purchase of two new companies that produce store fixtures -- Universal Showcase, Ltd., in Toronto, Canada and Triangle Systems, Inc., in New York. In October 1998, Pentzer acquired two additional store fixtures companies -- Horizon Terra, Inc., in Indiana and Pacific Coast Showcase, Inc., in Washington. During 1997, Pentzer acquired three new companies: Target Woodworks, Inc., a Florida-based company; White Plus, a California-based company; and Proco Wood Products, a Minnesota-based company. All three companies provide point-of-purchase and in-store merchandising services. During 1996, Pentzer acquired one company that provides point-of-purchase and in-store merchandising services.

During the first quarter of 1998, Pentzer sold Systran Financial Services, resulting in an after-tax gain of $5.5 million. In May 1997, Pentzer sold its interest in a portfolio company, Safety Speed Cut, resulting in a gain of approximately $2.0 million, net of taxes. In 1996, Pentzer Development Corporation, a subsidiary of Pentzer, sold the Spokane Industrial Park, resulting in a gain of approximately $10.8 million, net of taxes and other adjustments.

In November 1998, the Company reached an agreement in principal to purchase a majority ownership in One Eighty Communications, a competitive local exchange carrier that provided local dial tone and data services to commercial accounts in local communities. The acquisition was completed in January 1999, and the new company was renamed Avista Communications. It will provide local high-speed telecommunications services to under-served Northwest communities.

In December 1998, Avista Energy Canada, Ltd. acquired Coast Pacific Management, Inc. (Coast Pacific), a natural gas marketing company based in Vancouver, British Columbia, Canada. Coast Pacific manages and transports approximately 70,000 MMBtu of natural gas per day to some 70 large and medium size industrial customers throughout British Columbia. Coast Pacific also acts as gas manager for more than 40% of the large industrial market in the interior of British Columbia.

Effective February 1, 1999, Avista Energy completed and closed the purchase of Vitol Gas & Electric, LLC (Vitol), based in Boston, Massachusetts. Vitol is one of the top 20 energy marketing companies in the United States. Vitol trades gas, electricity, coal and SO2 allowances in markets in the eastern half of the United States. The acquisition was funded through the issuance of additional shares of common stock to Avista Capital.

NOTE 22. MERGER TERMINATION

On June 28, 1996, the Board of Directors of the Company terminated the Agreement and Plan of Reorganization and Merger, dated as of June 27, 1994 by and among the Company, Sierra Pacific Resources (SPR), Sierra Pacific Power Company, a subsidiary of SPR (SPPC), and Altus Corporation, a wholly owned subsidiary of the Company (Altus, formerly named Resources West Energy Corporation), which would have provided for the merger of the Company, SPR and SPPC with and into Altus. The Company had approximately $15.8 million, or $10.3 million after-tax, in merger-related transaction and transition costs that were expensed in 1996. No increase in rates occurred as a result of these costs being expensed.

NOTE 23. SELECTED QUARTERLY INFORMATION (UNAUDITED)

The Company's energy operations are significantly affected by weather conditions. Consequently, there can be large variances in revenues, expenses and net income between quarters based on seasonal factors such as temperatures and streamflow conditions. A summary of quarterly operations (in thousands of dollars except per share amounts) for 1998 and 1997 follows:

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1998				
Operating revenues	$ 571,678	$ 632,995	$ 1,434,055	$ 1,045,256
Operating income	56,633	41,942	24,303	49,942
Net income	32,232	15,643	8,707	21,557
Income available for common stock	31,408	14,855	8,099	15,378
Outstanding common stock (000s):				
Weighted average	55,960	55,960	55,960	50,669
Actual	55,960	55,960	55,960	40,454
Earnings per share:				
Energy Delivery and Generation and Resources	$ 0.40	$ 0.17	$ 0.10	$ 0.21
National Energy Trading and Marketing	0.03	0.07	(0.01)	0.13
Non-energy	0.13	0.03	0.05	(0.03)
Total, Basic and Diluted	$ 0.56	$ 0.27	$ 0.14	$ 0.31
Dividends paid per common share	$ 0.31	$ 0.31	$ 0.31	$ 0.12
Trading price range per share:				
High	$ 24 13/16	$ 24 7/8	$ 22 13/16	$ 20 3/16
Low	$ 21 11/16	$ 20 13/16	$ 16 1/4	$ 17 1/2
1997				
Operating revenues	$ 284,046	$ 236,274	$ 295,076	$ 486,776
Operating income	64,060	34,669	29,707	61,028
Net income	29,848	48,475	13,237	23,237
Income available for common stock	28,070	46,663	12,258	22,414
Outstanding common stock (000s):				
Weighted average	55,960	55,960	55,960	55,960
Actual	55,960	55,960	55,960	55,960
Earnings per share:				
Energy Delivery and Generation and Resources	$ 0.49	$ 0.81	$ 0.12	$ 0.29
National Energy Trading and Marketing	(0.01)	(0.03)	(0.02)	0.10
Non-energy	0.02	0.05	0.12	0.02
Total, Basic and Diluted	$ 0.50	$ 0.83	$ 0.22	$ 0.41
Dividends paid per common share	$ 0.31	$ 0.31	$ 0.31	$ 0.31
Trading price range per share:				
High	$ 19	$ 19 7/8	$ 21 1/4	$ 24 13/16
Low	$ 17 3/8	$ 17 3/8	$ 18 7/8	$ 18 15/16

The effects of the conversion from common stock to convertible preferred stock are reflected in the fourth quarter 1998 results. See Notes 14 and 18.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors of the Registrant has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 13, 1999.

Executive Officers of the Registrant

Name	Age	Business Experience During Past 5 Years
Thomas M. Matthews	55	Chairman of the Board, President & Chief Executive Officer since October 1998; Chairman of the Board & Chief Executive Officer July 1998 - October 1998; prior to employment with the Registrant: President - Dynegy 1996 to July 1998; Vice President - Texaco, Inc. 1994 - 1996.
Jon E. Eliassen	52	Senior Vice President & Chief Financial Officer since November 1998; Senior Vice President, Chief Financial Officer & Treasurer December 1997 - November 1998; Senior Vice President & Chief Financial Officer August 1996 - December 1997; Vice President - Finance & Chief Financial Officer February 1986 - August 1996.
Gary G. Ely	51	Executive Vice President since February 1999; Senior Vice President & General Manager August 1996 - February 1999; Vice President - Natural Gas February 1991- August 1996.
David J. Meyer	45	Senior Vice President & General Counsel since September 1998; prior to employment with the Registrant: Attorney - Paine Hamblen Coffin Brooke & Miller 1974 - September 1998.
Robert D. Fukai	49	Vice President - External Relations since August 1996; Vice President - Human Resources, Corporate Services & Marketing January 1993 August 1996.
JoAnn G. Matthiesen	58	Vice President - Human Resources since August 1996; Vice President - Organization Effectiveness, Public Relations & Assistant to the Chairman January 1993 - August 1996.
Ronald R. Peterson	46	Vice President and Treasurer since November 1998; Vice President and Controller February 1998 - November 1998; Controller August 1996 - February 1998; Treasurer February 1992 - August 1996.
Terry L. Syms	50	Vice President and Corporate Secretary since February 1998; Corporate Secretary March 1988 - February 1998.
Edward H. Turner	43	Vice President & General Manager - Energy Delivery since November 1998; prior to employment with the Registrant: Director of Industrial Sales and various other positions - Houston Lighting & Power Company and Houston Industries Incorporated for 24 years.
Roger D. Woodworth	42	Vice President - Corporate Development since November 1998; Director of Corporate Development and various other positions with the Company since 1979.

All of the Company's executive officers, with the exception of Messrs. Turner and Woodworth, were officers or directors of one or more of the Company's subsidiaries in 1998.

Executive officers are elected annually by the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 13, 1999.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security ownership of certain beneficial owners (owning 5% or more of Registrant's voting securities):

None.

(b) Security ownership of management:

Information regarding security ownership of management has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 13, 1999.

(c) Changes in control:

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 13, 1999.

PART IV

ITEM 14. FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, EXHIBITS AND REPORTS ON FORM 8-K

(a) 1. Financial Statements (Included in Part II of this report):

Independent Auditors' Report

Consolidated Statements of Income, Comprehensive Income and Retained Earnings for the Years Ended December 31, 1998, 1997 and 1996

Consolidated Balance Sheets, December 31, 1998 and 1997

Consolidated Statements of Capitalization, December 31, 1998 and 1997

Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996

Schedule of Information by Business Segments for the Years Ended December 31, 1998, 1997 and 1996

Notes to Financial Statements

(a) 2. Financial Statement Schedules:

None

(a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 75. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K:

Dated June 4, 1998, announcing the appointment of the Company's new Chief Executive Officer.

Dated August 19, 1998, regarding a dividend restructuring plan, a broad corporate refocus and the corporate name change.

Dated October 21, 1998, announcing third quarter earnings, a potential future rate increase in Idaho, a lawsuit filed against the Company, a potential change in capital expenditures in future periods and an update on the Company's progress on the Year 2000 issue.

Dated January 6, 1999, regarding the corporate name change effective January 1, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

THE WASHINGTON WATER POWER COMPANY

March 19, 1999 — By /s/ T. M. Matthews

Date — T. M. Matthews
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ T. M. Matthews T. M. Matthews (Chairman of the Board, President and Chief Executive Officer)	Principal Executive Officer and Director	March 19, 1999
/s/ J. E. Eliassen J. E. Eliassen (Senior Vice President and Chief Financial Officer)	Principal Financial and Accounting Officer	March 19, 1999
/s/ David A. Clack David A. Clack	Director	March 19, 1999
/s/ Sarah M. R. Jewell Sarah M. R. Jewell	Director	March 19, 1999
/s/ John F. Kelly John F. Kelly	Director	March 19, 1999
/s/ Eugene W. Meyer Eugene W. Meyer	Director	March 19, 1999
/s/ Bobby Schmidt Bobby Schmidt	Director	March 19, 1999
/s/ Larry A. Stanley Larry A. Stanley	Director	March 19, 1999
/s/ R. John Taylor R. John Taylor	Director	March 19, 1999
/s/ Daniel J. Zaloudek Daniel J. Zaloudek	Director	March 19, 1999

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-81697, 2-94816, 33-54791, and 33-32148 on Form S-8, and in Registration Statement Nos. 33-49662, 33-53655, 333-39551,333-16353, 333-16353-01, 333-16353-02, and 333-16353-03 on Form S-3 of our report dated January 29, 1999 (February 1, 1999 as to Note 21 and March 10, 1999 as to Note 20), appearing in this Annual Report on Form 10-K of Avista Corporation for the year ended December 31, 1998.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Seattle, Washington
March 19, 1999

EXHIBIT INDEX

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
3(a)	**		Restated Articles of Incorporation of Avista Corporation as restated February 25, 1999.
3(b)	**		Bylaws of Avista Corporation, as amended January 1, 1999.
4(a)-1	2-4077	B-3	Mortgage and Deed of Trust, dated as of June 1, 1939.
4(a)-2	2-9812	4(c)	First Supplemental Indenture, dated as of October 1, 1952.
4(a)-3	2-60728	2(b)-2	Second Supplemental Indenture, dated as of May 1, 1953.
4(a)-4	2-13421	4(b)-3	Third Supplemental Indenture, dated as of December 1, 1955.
4(a)-5	2-13421	4(b)-4	Fourth Supplemental Indenture, dated as of March 15, 1967.
4(a)-6	2-60728	2(b)-5	Fifth Supplemental Indenture, dated as of July 1, 1957.
4(a)-7	2-60728	2(b)-6	Sixth Supplemental Indenture, dated as of January 1, 1958.
4(a)-8	2-60728	2(b)-7	Seventh Supplemental Indenture, dated as of August 1, 1958.
4(a)-9	2-60728	2(b)-8	Eighth Supplemental Indenture, dated as of January 1, 1959.
4(a)-10	2-60728	2(b)-9	Ninth Supplemental Indenture, dated as of January 1, 1960.
4(a)-11	2-60728	2(b)-10	Tenth Supplemental Indenture, dated as of April 1, 1964.
4(a)-12	2-60728	2(b)-11	Eleventh Supplemental Indenture, dated as of March 1, 1965.
4(a)-13	2-60728	2(b)-12	Twelfth Supplemental Indenture, dated as of May 1, 1966.
4(a)-14	2-60728	2(b)-13	Thirteenth Supplemental Indenture, dated as of August 1, 1966.
4(a)-15	2-60728	2(b)-14	Fourteenth Supplemental Indenture, dated as of April 1, 1970.
4(a)-16	2-60728	2(b)-15	Fifteenth Supplemental Indenture, dated as of May 1, 1973.
4(a)-17	2-60728	2(b)-16	Sixteenth Supplemental Indenture, dated as of February 1, 1975.
4(a)-18	2-60728	2(b)-17	Seventeenth Supplemental Indenture, dated as of November 1, 1976.
4(a)-19	2-69080	2(b)-18	Eighteenth Supplemental Indenture, dated as of June 1, 1980.
4(a)-20	1-3701 (with 1980 Form 10-K)	4(a)-20	Nineteenth Supplemental Indenture, dated as of January 1, 1981.
4(a)-21	2-79571	4(a)-21	Twentieth Supplemental Indenture, dated as of August 1, 1982.
4(a)-22	1-3701 (with Form 8-K dated September 20, 1983)	4(a)-22	Twenty-First Supplemental Indenture, dated as of September 1, 1983.
4(a)-23	2-94816	4(a)-23	Twenty-Second Supplemental Indenture, dated as of March 1, 1984.

- ----------

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
4(a)-24	1-3701 (with 1986 Form 10-K)	4(a)-24	Twenty-Third Supplemental Indenture, dated as of December 1, 1986.
4(a)-25	1-3701 (with 1987 Form 10-K)	4(a)-25	Twenty-Fourth Supplemental Indenture, dated as of January 1, 1988.
4(a)-26	1-3701 (with 1989 Form 10-K)	4(a)-26	Twenty-Fifth Supplemental Indenture, dated as of October 1, 1989.
4(a)-27	33-51669	4(a)-27	Twenty-Sixth Supplemental Indenture, dated as of April 1, 1993.
4(a)-28	1-3701 (with 1993 Form 10-K)	4(a)-28	Twenty-Seventh Supplemental Indenture, dated as of January 1, 1994.
4(b)-1	1-3701 (with 1989 Form 10-K)	4(e)-1	Loan Agreement between City of Forsyth, Rosebud County, and the Company, dated as of November 1, 1989 (Series 1989 A and 1989 B). Replaces Exhibit 4(e)-1 (agreement between the Company and City of Forsyth, Rosebud County, Montana, dated as of October 1, 1986) filed with Form 10-K for 1986 and Exhibit 4(g)-1 (agreement between the Company and City of Forsyth, Rosebud County, Montana, dated as of April 1, 1987) filed with Form 10-K for 1987.
4(b)-2	1-3701 (with 1989 Form 10-K)	4(e)-2	Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1989 A and 1989 B) between City of Forsyth, Rosebud County, Montana and Chemical Bank, dated as of November 1, 1989. Replaces Exhibit 4(e)-2 (Indenture of Trust between City of Forsyth, Rosebud County, Montana and Chemical Bank dated as of October 1, 1986) filed with Form 10-K for 1986 and Exhibit 4(g)-2 (Indenture of Trust between City of Forsyth, Rosebud County, Montana and Chemical Bank, dated as of April 1, 1987) filed with Form 10-K for 1987.
4(c)-1	1-3701 (with 1988 Form 10-K)	4(h)-1	Indenture between the Company and Chemical Bank dated as of July 1, 1988 (Series A and B Medium-Term Notes).
4(d)-1	**		Credit Agreement between the Company and Toronto Dominion (Texas), Bank of America National Trust and Savings Association and The Bank of New York with Toronto Dominion as the agent, dated June 30, 1998.
4(d)-2	**		Credit Agreement between the Company and Toronto Dominion (Texas), Bank of America National Trust and Savings Association and The Bank of New York with Toronto Dominion as the agent, dated June 30, 1998.
4(e)-1	1-3701 (with Form 8-K dated February 16, 1990)	4(n)	Rights Agreement, dated as of February 16, 1990, between the Company and the Bank of New York as successor Rights Agent.
4(e)-2	1-3701 (with 1994 First Quarter Form 10-Q)	4(b)	Amendment No. 1 to Rights Agreement, dated as of May 10, 1994.

- -------------

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
4(e)-3	1-3701 (with 1994 Third Quarter Form 10-Q)	4(b)	Amendment No. 2 to Rights Agreement, dated as of June 27, 1994.
10(a)-l	2-13788	13(e)	Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of November 14, 1957.
10(a)-2	2-60728	10(b)-1	Amendment to Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of June 1, 1968.
10(b)-1	2-13421	13(d)	Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of May 22, 1956.
10(b)-2	2-60728	5(d)-1	Second Amendment to Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10(c)-1	2-60728	5(e)	Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of June 22, 1959.
10(c)-2	2-60728	5(e)-1	First Amendment to Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10(d)-1	2-60728	5(g)	Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10(d)-2	2-60728	5(g)-1	Amendment to Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10(d)-3	2-60728	5(h)	Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10(d)-4	2-60728	5(h)-1	Amendment to Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10(e)	2-60728	5(i)	Canadian Entitlement Exchange Agreement executed by Bonneville Power Administration Columbia Storage Power Exchange and the Company, dated as of August 13, 1964.
10(f)	2-60728	5(j)	Pacific Northwest Coordination Agreement, dated as of September 15, 1964.
10(g)-1	2-60728	5(k)	Ownership Agreement between the Company, Pacific Power & Light Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts as owners of the Centralia Steam Electric Generating Plant, dated as of May 15, 1969.

- ---------

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(g)-2	1-3701 (with Form 10-K for 1991)	10(h)-3	Centralia Fuel Supply Agreement between PacifiCorp Electric Operations, as the Seller, and the Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts, as the Buyers of coal for the Centralia Steam Electric Generating Plant, dated as of January 1, 1991.
10(h)-l	2-47373	13(y)	Agreement between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of January 6, 1973.
10(h)-2	2-60728	5(m)-1	Amendment No. 1 to the Agreement between the Company between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of May 8, 1974.
10(h)-3	1-3701 (with Form 10-K for 1986)	10(i)-3	Agreement between Bonneville Power Administration, the Montana Power Company, Pacific Power & Light, Portland General Electric, Puget Sound Power & Light, the Company and the Supply System for relocation costs of Nuclear Project No. 1 (Hanford) dated as of July 9, 1986.
10(i)-1	2-60728	5(n)	Ownership Agreement of Nuclear Project No. 3, sponsored by Washington Public Power Supply System, dated as of September 17, 1973.
10(i)-2	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	1	Settlement Agreement and Covenant Not to Sue executed by the United States Department of Energy acting by and through the Bonneville Power Administration and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation.
10(i)-3	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	2	Agreement to Dismiss Claims and Covenant Not to Sue between the Washington Public Power Supply System and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation with the Supply System.
10(i)-4	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	3	Agreement among Puget Sound Power & Light Company, the Company, Portland General Electric Company and PacifiCorp, dba Pacific Power & Light Company, agreeing to execute contemporaneously an irrevocable offer, to and for the benefit of the Bonneville Power Administration, dated as of September 17, 1985.
10(j)-1	2-66184	5(r)	Service Agreement (Natural Gas Storage Service), dated as of August 27, 1979, between the Company and Northwest Pipeline Corporation.
10(j)-2	2-60728	5(s)	Service Agreement (Liquefaction-Storage Natural Gas Service), dated as of December 7, 1977, between the Company and Northwest Pipeline Corporation.

- ---------

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(j)-3	1-3701 (with 1989 Form 10-K)	10(k)-4	Amendment dated as of January 1, 1990, to Firm Transportation Agreement, dated as of June 15, 1988, between the Company and Northwest Pipeline Corporation.
10(j)-4	1-3701 (with 1992 Form 10-K)	10(k)-6	Firm Transportation Service Agreement, dated as of April 25, 1991, between the Company and Pacific Gas Transmission Company.
10(j)-5	1-3701 (with 1992 Form 10-K)	10(k)-7	Service Agreement Applicable to Firm Transportation Service, dated June 12, 1991, between the Company and Alberta Natural Gas Company Ltd.
10(k)-1	1-3701 (with Form 8-K for August 1976)	13(b)	Letter of Intent for the Construction and Ownership of Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of April 16, 1974.
10(k)-2	1-3701 (with 1981 Form 10-K)	10(s)-7	Ownership and Operation Agreement for Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of May 6, 1981.
10(k)-3	1-3701 (with 1981 Form 10-K)	10(s)-2	Coal Supply Agreement for Colstrip Units No. 3 and 4 between The Montana Power Company, Puget Sound Power & Light Company, Portland General Electric Company, Pacific Power & Light Company, Western Energy Company and the Company, dated as of July 2, 1980.
10(k)-4	1-3701 (with 1981 Form 10-K)	10(s)-3	Amendment No. 1 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of July 10, 1981.
10(k)-5	1-3701 (with 1988 Form 10-K)	10(l)-5	Amendment No. 4 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of January 1, 1988.
10(l)-1	1-3701 (with 1986 Form 10-K)	10(n)-2	Lease Agreement between the Company and IRE-4 New York, Inc., dated as of December 15, 1986, relating to the Company's central operating facility.
10(m)	1-3701 (with 1983 Form 10-K)	10(v)	Supplemental Agreement No. 2, Skagit/Hanford Project, dated as of December 27, 1983, relating to the termination of the Skagit/Hanford Project.
10(n)	1-3701 (with 1986 Form 10-K)	10(p)-l	Agreement for Purchase and Sale of Firm Capacity and Energy between Puget Sound Power & Light Company and the Company, dated as of August 1, 1986.
10(o)	1-3701 (with 1991 Form 10-K)	10(q)-1	Electric Service and Purchase Agreement between Potlatch Corporation and the Company, dated as of January 3, 1991.
10(p)	1-3701 (with 1992 Form 10-K)	10(s)-1	Agreements for Purchase and Sale of Firm Capacity between the Company and Portland General Electric Company dated March and June 1992.

- ----------

*Incorporated herein by reference.

**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(q)-1	1-3701 (with 1992 Form 10-K)	10(t)-8	Executive Deferral Plan of the Company. (***)
10(q)-2	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(q)-3	1-3701 (with 1992 Form 10-K)	10(t)-11	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(q)-4	1-3701 (with 1992 Form 10-K)	10(t)-12	Income Continuation Plan of the Company. (***)
10(q)-5	**		Long-Term Incentive Plan. (***)
10(q)-6	**		Employment Agreement between the Company and T. M. Matthews. (***)
12	**		Statement re computation of ratio of earnings to fixed charges and preferred dividend requirements.
21	**		Subsidiaries of Registrant.
27	**		Financial Data Schedule.

- ------------

* Incorporated herein by reference.

** Filed herewith.

*** Management contracts or compensatory plans filed as exhibits by reference per Item 601(10)(iii) of Regulation S-K.

EXHIBIT 3(a)

RESTATED
ARTICLES OF INCORPORATION OF
AVISTA CORPORATION

Know all men by these presents that we have this day voluntarily associated ourselves together for the purpose of forming, and we do hereby form and agree to become a Corporation, under and by virtue of the laws of the Territory of Washington, and for such purpose we do hereby certify:-

FIRST: That the name of said Corporation is Avista Corporation.

SECOND: The objects and purposes for which the Corporation is formed are:

To acquire, buy, hold, own, sell, lease, exchange, dispose of, finance, deal in, construct, build, equip, improve, use, operate, maintain and work upon:

(a) Any and all kinds of plants and systems for the manufacture, production, storage, utilization, purchase, sale, supply, transmission, distribution or disposition of electric energy, natural or artificial gas, water or steam, or power produced thereby, or of ice and refrigeration of any and every kind;

(b) Any and all kinds of telephone, telegraph, radio, wireless and other systems, facilities and devices for the receipt and transmission of sounds and signals, any and all kinds of interurban, city and street railways and bus lines for the transportation of passengers and/or freight, transmission lines, systems, appliances, equipment and devices and tracks, stations, buildings and other structures and facilities;

(c) Any and all kinds of works, power plants, manufactories, structures, substations, systems, tracks, machinery, generators, motors, lamps, poles, pipes, wires, cables, conduits, apparatus, devices, equipment, supplies, articles and merchandise of every kind pertaining to or in anywise connected with the construction, operation or maintenance of telephone, telegraph, radio, wireless and other systems, facilities and devices for the receipt and transmission of sounds and signals, or of interurban, city and street railways and bus lines, or in anywise connected with or pertaining to the manufacture, production, purchase, use, sale, supply, transmission, distribution, regulation, control or application of electric energy, natural or artificial gas, water, steam, ice, refrigeration and power or any other purpose;

To acquire, buy, hold, own, sell, lease, exchange, dispose of, transmit, distribute, deal in, use, manufacture, produce, furnish and supply street and interurban railway and bus service, electric energy, natural or artificial gas, light, heat, ice, refrigeration, water and steam in any form and for any purposes whatsoever; and any power or force, or energy in any form and for any purposes whatsoever;

To manufacture, produce, buy or in any other manner acquire, and to sell, furnish, dispose of and distribute steam for heating or other purposes, and to purchase, lease or otherwise acquire, build, construct, erect, hold, own, improve, enlarge, maintain, operate, control, supervise and manage and to sell, lease or otherwise dispose of plants, works and facilities, including distribution systems, mains, pipes, conduits and meters, and all other necessary apparatus and appliances used or useful or convenient for use in the business of manufacturing, producing, selling, furnishing, disposing of and distributing steam for heating or for any other purposes;

To acquire, organize, assemble, develop, build up and operate constructing and operating and other organizations and systems, and to hire, sell, lease, exchange, turn over, deliver and dispose of such organizations and systems in whole or in part and as going organizations and systems and otherwise, and to enter into and perform contracts, agreements and undertakings of any kind in connection with any or all of the foregoing powers;

To do a general contracting business;

To purchase, acquire, develop, mine, explore, drill, hold, own, sell and dispose of lands, interest in and rights with respect to lands and waters and fixed and movable property;

To plan, design, construct, alter, repair, remove or otherwise engage in any work upon bridges, dams, canals, piers, docks, wharfs, buildings, structures, foundations, mines, shafts, tunnels, wells, waterworks and all kinds of structural excavations and subterranean work and generally to carry on the business of contractors and engineers;

To manufacture, improve and work upon and to deal in, purchase, hold, sell and convey minerals, metals, wood, oils and other liquids, gases, chemicals, animal and plant products or any of the products and by-products thereof or any article or thing into the manufacture of which any of the foregoing may enter;

To manufacture, improve, repair and work upon and to deal in, purchase, hold, sell and convey any and all kinds of machines, instruments, tools, implements, mechanical devices, engines, boilers, motors, generators, rails, cars, ships, boats, launches, automobiles, trucks, tractors, airships, aeroplanes, articles used in structural work, building materials, hardware, textiles, clothing, cloth, leather goods, furs and any other goods, wares and merchandise of whatsoever kind;

To construct, erect and sell buildings and structures in and on any lands for any use or purpose; to equip and operate warehouses, office buildings, hotels, apartment houses, apartment hotels and restaurants, or any other buildings and structures of whatsoever kind;

To guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of the shares of the capital stock of, or any bonds, securities or evidences of indebtedness created by any other corporation or corporations of the state of Washington or of any other state or government, and, while the owner of such stock, to exercise all the rights, powers and privileges of individual ownership with respect thereto, including the right to vote thereon, and to consent and otherwise act with respect thereto;

To aid in any manner any corporation or association, domestic or foreign, or any firm or individual, any shares of stock in which or any bonds, debentures, notes, securities, evidence of indebtedness, contracts or obligations of which are held by or for the Corporation or in which or in the welfare of which the Corporation shall have any interest, and to do any acts designed to protect, preserve, improve or enhance the value of any property at any time held or controlled by the Corporation, or in which it may be interested at any time; and to organize or promote or facilitate the organization of subsidiary companies;

To purchase from time to time any of its stock outstanding (so far as may be permitted by law) at such price as may be fixed by its Board of Directors or Executive Committee and accepted by the holders of the stock purchased, and to resell any stock so purchased at such price as may be fixed by its said Board of Directors or Executive Committee;

In any manner to acquire, enjoy, utilize and to sell or otherwise dispose of patents, copyrights and trademarks and any licenses or other rights or interests therein and thereunder;

To purchase, acquire, hold, own and sell or otherwise dispose of franchises, concessions, consents, privileges and licenses;

To borrow money and contract debts, to issue bonds, promissory notes, bills of exchange, debentures and other obligations and evidences of indebtedness payable at a specified time or times or payable upon the happening of a specified event or events, whether secured by mortgage, pledge or otherwise or unsecured, for money borrowed or in payment for property purchased or acquired or any other lawful objects; all as may be determined from time to time by the Board of Directors or Executive Committee of the Corporation, pursuant to the authority hereby conferred;

To create mortgages or deeds of trust which shall cover and create a lien upon all or any part of the property of the Corporation of whatsoever kind and wheresoever situated, then owned or thereafter acquired, and to provide in any such mortgage or deed of trust that the amount of bonds or other evidences of indebtedness to be issued thereunder and to be secured thereby shall be limited to a definite

amount or limited only by the conditions therein specified and to issue or cause to be issued by the Corporation the bonds or other evidences of indebtedness to be secured thereby; all as may be determined from time to time by the Board of Directors or Executive Committee of the Corporation pursuant to the authority hereby conferred;

To do all and everything necessary and proper for the accomplishment of the objects enumerated in these Articles of Incorporation or any amendment thereof or necessary or incidental to the protection and benefit of the Corporation, and in general to carry on any lawful business necessary or incidental to the attainment of the objects of the Corporation whether or not such business is similar in nature to the objects set forth in these Articles of Incorporation or any amendment thereof;

To do any or all things herein set forth, to the same extent and as fully as natural persons might or could do, and in any part of the world, and as principal, agent, contractor or otherwise, and either alone or in conjunction with any other persons, firms, associations or corporations;

To conduct its business in any or all its branches in the state of Washington, other states, the District of Columbia, the territories and colonies of the United States, and any foreign countries, and to have one or more offices out of the state of Washington.

THIRD:

(a) The amount of capital with which the Corporation will begin to carry on business hereunder shall be FIVE MILLION FIVE HUNDRED DOLLARS ($5,000,500).

(b) The aggregate number of shares of capital stock which the Corporation shall have authority to issue is 210,000,000 shares, divided into 10,000,000 shares of Preferred Stock without nominal or par value, issuable in series as hereinafter provided, and 200,000,000 shares of Common Stock without nominal or par value.

(c) A statement of the preferences, limitations and relative rights of each class of capital stock of the Corporation, namely, the Preferred Stock without nominal or par value and the Common Stock without nominal or par value, of the variations in the relative rights and preferences as between series of the Preferred Stock insofar as the same are fixed by these Articles of Incorporation, and of the authority vested in the Board of Directors of the Corporation to establish series of Preferred Stock and to fix and determine the variations in the relative rights and preferences as between series insofar as the same are not fixed by these Articles of Incorporation and as to which there may be variations between series is as follows.

(d) The shares of the Preferred Stock may be divided into and issued in series. Each series shall be so designated as to distinguish the shares thereof from the shares of all other series of the Preferred Stock and all other classes of capital stock of the Corporation. To the extent that these Articles of Incorporation shall not have established series of the Preferred Stock and fixed and determined the variations in the relative rights and preferences as between series, the Board of Directors shall have authority, and is hereby expressly vested with authority, to divide the Preferred Stock into series and, within the limitations set forth in these Articles of Incorporation and such limitations as may be provided by law, to fix and determine the relative rights and preferences of any series of the Preferred Stock so established. Such action by the Board of Directors shall be expressed in a resolution or resolutions adopted by it prior to the issuance of shares of each series, which resolution or resolutions shall also set forth the distinguishing designation of the particular series of the Preferred Stock established thereby. Without limiting the generality of the foregoing, authority is hereby expressly vested in the Board of Directors so to fix and determine, with respect to any series of the Preferred Stock:

(1) the rate or rates of dividend, if any, which may be expressed in terms of a formula or other method by which such rate or rates shall be calculated from time to time, and the date or dates on which dividends may be payable;

(2) whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption;

(3) the amount payable upon shares in event of voluntary and involuntary liquidation;

(4) sinking fund provisions, if any, for the redemption or purchase of shares; and

(5) the terms and conditions, if any, on which shares may be converted.

All shares of the Preferred Stock of the same series shall be identical except that shares of the same series issued at different times may vary as to the dates from which dividends thereon shall be cumulative; and all shares of the Preferred Stock, irrespective of series, shall constitute one and the same class of stock, shall be of equal rank, and shall be identical except as to the designation thereof, the date or dates from which dividends on shares thereof shall be cumulative, and the relative rights and preferences set forth above in clauses (1) through (5) of this subdivision (d), as to which there may be variations between different series. Except as may be otherwise provided by law, by subdivision (j) of this Article THIRD, or by the resolutions establishing any series of Preferred Stock in accordance with the foregoing provisions of this subdivision (d), whenever the written consent, affirmative vote, or other action on the part of the holders of the Preferred Stock may be required for any purpose, such consent, vote or other action shall be taken by the holders of the Preferred Stock as a single class irrespective of series and not by different series.

(e) Out of any funds legally available for the payment of dividends, the holders of the Preferred Stock of each series shall be entitled, in preference to the holders of the Common Stock, to receive, but only when and as declared by the Board of Directors, dividends at the rate or rates fixed and determined with respect to each series in accordance with these Articles of Incorporation, and no more, payable as hereinafter provided. Such dividends shall be cumulative so that if for all past dividend periods and the then current dividend periods dividends shall not have been paid or declared and set apart for payment on all outstanding shares of each series of the Preferred Stock, at the dividend rates fixed and determined for the respective series, the deficiency shall be fully paid or declared and set apart for payment before any dividends on the Common Stock shall be paid or declared and set apart for payment; provided, however, that nothing in this subdivision (e) or elsewhere in these Articles of Incorporation shall prevent the simultaneous declaration and payment of dividends on both the Preferred Stock and the Common Stock if there are sufficient funds legally available to pay all dividends concurrently. Dividends on all shares of the Preferred Stock of each series shall be cumulative from the date of issuance of shares of such series. If more than one series of the Preferred Stock shall be outstanding and if dividends on each series shall not have been paid or declared and set apart for payment, at the dividend rate or rates fixed and determined for such series, the shares of the Preferred Stock of each series shall share ratably in the payment of dividends including accumulations, if any, in accordance with the sums which would be payable on such shares if all dividends were declared and paid in full. As to all series of Preferred Stock, the dividend payment dates for regular dividends shall be the fifteenth day of March, June, September and December in each year, unless other dividend payment dates shall have been fixed and determined for any series in accordance with subdivision (d) of this Article THIRD, and the dividend period in respect of which each regular dividend shall be payable in respect of each series shall be the period commencing on the next preceding dividend payment date for such series and ending on the day next preceding the dividend payment date for such dividend. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments which may be in arrears.

(f) Subject to the limitations set forth in paragraph (e) or elsewhere in these Articles of Incorporation (and subject to the rights of any class of stock hereafter authorized), dividends may be paid on the Common Stock when and as declared by the Board of Directors out of any funds legally available for the payment of dividends, and no holder of shares of any series of the Preferred Stock as such shall be entitled to share therein.

(g) In the event of any voluntary dissolution, liquidation or winding up of the Corporation, before any distribution or payment shall be made to the holders of the Common Stock, the holders of the Preferred Stock of each series then outstanding shall be entitled to receive out of the net

assets of the Corporation available for distribution to its shareholders the respective amounts per share fixed and determined in accordance with these Articles of Incorporation to be payable on the shares of such series in the event of voluntary liquidation, and no more, and in the event of any involuntary dissolution, liquidation or winding up of the Corporation, before any distribution or payment shall be made to the holders of the Common Stock, the holders of the Preferred Stock of each series then outstanding shall be entitled to receive out of the net assets of the Corporation available for distribution to its shareholders the respective amounts per share fixed and determined in accordance with these Articles of Incorporation to be payable on the shares of such series in the event of involuntary liquidation, and no more. If upon any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, the net assets of the Corporation available for distribution to its shareholders shall be insufficient to pay the holders of all outstanding shares of Preferred Stock of all series the full amounts to which they shall be respectively entitled as aforesaid, the entire net assets of the Corporation available for distribution shall be distributed ratably to the holders of all outstanding shares of Preferred Stock of all series in proportion to the amounts to which they shall be respectively so entitled. For the purposes of this and the next succeeding subdivision, and without limiting the right of the Corporation to distribute its assets or to dissolve, liquidate or wind up in connection with any sale, merger or consolidation, the sale of all or substantially all of the property of the Corporation, or the merger or consolidation of the Corporation into or with any other corporation or corporations, shall not be deemed to be a distribution of assets or a dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary.

(h) Subject to the limitations set forth in subdivision (g) of this Article THIRD or elsewhere in these Articles of Incorporation (and subject to the rights of any class of stock hereafter authorized) upon any dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, any net assets of the Corporation available for distribution to its shareholders shall be distributed ratably to holders of the Common Stock.

(i) The Preferred Stock may be redeemed in accordance with the following provisions of this subdivision (i):

(1) Each series of the Preferred Stock which has been determined to be redeemable as permitted by subdivision (d) of this Article THIRD may be redeemed in whole or in part by the Corporation, at its election expressed by resolution of the Board of Directors, at any time or from time to time, at the then applicable redemption price fixed and determined with respect to each series, subject however, to any terms and conditions specified in respect of any series of the Preferred Stock in accordance with subdivision (d) of this Article THIRD. If less than all of the shares of any series are to be redeemed, the redemption shall be made either pro rata or by lot in such manner as the Board of Directors shall determine.

(2) In the event the Corporation shall so elect to redeem shares of the Preferred Stock, notice of the intention of the Corporation to do so and of the date and place fixed for redemption shall be mailed not less than thirty nor more than ninety days before the date fixed for redemption to each holder of shares of the Preferred Stock to be redeemed at his address as it shall appear on the books of the Corporation, and on and after the date fixed for redemption and specified in such notice (unless the Corporation shall default in making payment of the redemption price), such holders shall cease to be shareholders of the Corporation with respect to such shares and shall have no interest in or claim against the Corporation with respect to such shares, excepting only the right to receive the redemption price therefor from the Corporation on the date fixed for redemption, without interest, upon endorsement, if required, and surrender of their certificates for such shares.

(3) Contemporaneously with the mailing of notice of redemption of any shares of the Preferred Stock as aforesaid or at any time thereafter on or before the date fixed for redemption, the Corporation may, if it so elects, deposit the aggregate redemption price of the shares to be redeemed with any bank or trust company doing business in the City of New York, New York, or Spokane, Washington, having a capital and surplus of at least $5,000,000, named in such notice, payable on the date fixed for redemption in the proper

amounts to the respective holders of the shares to be redeemed, upon endorsement, if required, and surrender of their certificates for such shares, and on and after the making of such deposit such holders shall cease to be shareholders of the Corporation with respect to such shares and shall have no interest in or claim against the Corporation with respect to such shares, excepting only the right to exercise such redemption or exchange rights, if any, on or before the date fixed for redemption as may have been provided with respect to such shares or the right to receive the redemption price of their shares from such bank or trust company on the date fixed for redemption, without interest, upon endorsement, if required, and surrender of their certificates for such shares.

(4) If the Corporation shall have so elected to deposit the redemption moneys with a bank or trust company, any moneys so deposited which shall remain unclaimed at the end of six years after the redemption date shall be repaid to the Corporation, and upon such repayment holders of Preferred Stock who shall not have made claim against such moneys prior to such repayment shall be deemed to be unsecured creditors of the Corporation for an amount, without interest, equal to the amount they would theretofore have been entitled to receive from such bank or trust company. Any redemption moneys so deposited which shall not be required for such redemption because of the exercise, after the date of such deposit, of any right of conversion or exchange or otherwise, shall be returned to the Corporation forthwith. The Corporation shall be entitled to receive any interest allowed by any bank or trust company on any moneys deposited with such bank or trust company as herein provided, and the holders of any shares called for redemption shall have no claim against any such interest.

(5) Nothing herein contained shall limit any legal right of the Corporation to purchase or otherwise acquire any shares of the Preferred Stock.

(j) The holders of the Preferred Stock shall not have any right to vote for the election of Directors or for any other purpose except as otherwise provided by law and as set forth below in this subdivision of this Article THIRD or elsewhere in these Articles of Incorporation. Holders of Preferred Stock shall be entitled to notice of each meeting of shareholders at which they shall have any right to vote but except as may be otherwise provided by law shall not be entitled to notice of any other meeting of shareholders.

(1) Whenever and as often as, at any date, dividends payable on any shares of the Preferred Stock shall be in arrears in an amount equal to the aggregate amount of dividends accumulated on such shares of the Preferred Stock over the eighteen-month period ended on such date, the holders of the Preferred Stock of all series, voting separately and as a single class, shall be entitled to vote for and to elect a majority of the Board of Directors, and the holders of the Common Stock, voting separately and as a single class, shall be entitled to vote for and to elect the remaining Directors of the Corporation. The right of the holders of the Preferred Stock to elect a majority of the Board of Directors shall, however, cease when all defaults in the payment of dividends on their stock shall have been cured and such dividends shall be declared and paid out of any funds legally available therefor as soon as in the judgment of the Board of Directors is reasonably practicable. The terms of office of all persons who may be Directors of the Corporation at the time the right to elect Directors shall accrue to the holders of the Preferred Stock as herein provided shall terminate upon the election of their successors at a meeting of the shareholders of the Corporation then entitled to vote. Such election shall be held at the next Annual Meeting of Shareholders or may be held at a special meeting of shareholders but shall be held upon notice as provided in the Bylaws of the Corporation for a special meeting of the shareholders. Any vacancy in the Board of Directors occurring during any period when the Preferred Stock shall have elected representatives on the Board shall be filled by a majority vote of the remaining Directors representing the class of stock theretofore represented by the Director causing the vacancy. At all meetings of the shareholders held for the purpose of electing Directors during such times as the holders of the Preferred Stock shall have the exclusive right to elect a majority of the Board of Directors of the Corporation, the presence in person or by proxy of the holders of a majority of the outstanding shares of Preferred Stock of all series shall be required to substitute a quorum

of such class for the election of Directors, and the presence in person or by proxy of the holders of a majority of the outstanding shares of Common Stock shall be required to constitute a quorum of such class for the election of Directors; provided, however, that the absence of a quorum of the holders of stock of either class shall not prevent the election at any such meeting, or adjournment thereof, of Directors by the other class if the necessary quorum of the holders of stock of such class is present in person or by proxy at such meeting; and provided further, that, in the absence of a quorum of the holders of stock of either class, a majority of those holders of such stock who are present in person or by proxy shall have the power to adjourn the election of those Directors to be elected by that class from time to time without notice, other than announcement at the meeting, until the requisite amount of holders of stock of such class shall be present in person or by proxy.

(2) So long as any shares of the Preferred Stock shall be outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of the shares of the Preferred Stock at the time outstanding, adopt any amendment to these Articles of Incorporation if such amendment would:

(i) create or authorize any new class of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up;

(ii) increase the authorized number of shares of the Preferred Stock; or

(iii) change any of the rights or preferences of the Preferred Stock at the time outstanding provided, however, that if any proposed change of any of the rights or preferences of any outstanding shares of the Preferred Stock would affect the holders of shares of one or more, but not all, series of the Preferred Stock then outstanding, only the affirmative vote of the holders of at least a majority of the total number of outstanding shares of all series so affected shall be required; and provided further, that nothing herein shall authorize the adoption of any amendment to these Articles of Incorporation by the vote of the holders of a lesser number of shares of the Preferred Stock, or of any other class of stock, or of all classes of stock, than is required for such an amendment by the laws of the state of Washington at the time applicable thereto.

(3) So long as any shares of the Preferred Stock shall be outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of the shares of the Preferred Stock at the time outstanding, issue any shares of the Preferred Stock, or of any other class of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, unless the net income of the Corporation available for the payment of dividends for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issuance of such shares (including, in any case in which such shares are to be issued in connection with the acquisition of new property, the net income of the property so to be acquired, computed on the same basis as the net income of the Corporation) is at least equal to one and one-half times the annual dividend requirements on all shares of the Preferred Stock, and on all shares of all other classes of stock ranking prior to or on a parity with the Preferred Stock as to dividends or upon dissolution, liquidation or winding up, which will be outstanding immediately after the issuance of such shares, including the shares proposed to be issued; provided, however, that if the shares of any series of the Preferred Stock or any such prior or parity stock shall have a variable dividend rate, the annual dividend requirement on the shares of such series shall be determined by reference to the weighted average dividend rate on such shares during the twelve-month period for which the net income of the Corporation available for the payment of dividends shall have been determined; and provided, further, that if the shares of the series to be issued are to have a variable dividend rate, the annual dividend requirement on the shares of such series shall be determined by reference to the initial dividend rate upon the issuance of such shares. In any case where it would be appropriate, under generally accepted accounting principles to combine or consolidate the financial statements of any parent or subsidiary of the Corporation with

those of the Corporation, the foregoing computation may be made on the basis of such combined or consolidated financial statements.

(k) Subject to the limitations set forth in subdivision (j) of this Article THIRD (and subject to the rights of any class of stock hereafter authorized), and except as may be otherwise provided by law, the holders of the Common Stock shall have the exclusive right to vote for the election of Directors and for all other purposes. At each meeting of shareholders, each holder of stock entitled to vote thereat shall be entitled to one vote for each share of such stock held by him and recorded in his name on the record date for such meeting, and may vote and otherwise act in person or by proxy; provided, however, that at each election for Directors every shareholder entitled to vote at such election shall have the right to vote the number of shares held by him for as many persons as there are Directors to be elected and for whose election he has the right to vote, or to cumulate his votes by giving one candidate as many votes as the number of such Directors multiplied by the number of his shares shall equal, or by distributing such votes on the same principle among any number of such candidates.

(l) Subject to the limitations set forth in subdivision (j) of this Article THIRD (and subject to the rights of any class of stock hereafter authorized), and except as may be otherwise provided by law, upon the vote of a majority of all of the Directors of the Corporation and of the holders of record of two-thirds of the total number of shares of the Corporation then issued and outstanding and entitled to vote (or, if the vote of a larger number or different proportion of shares is required by the laws of the state of Washington, notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the vote of the holders of record of the larger number or different proportion of shares so required) the Corporation may from time to time create or authorize one or more other classes of stock with such preferences, designations, rights, privileges, powers, restrictions, limitations and qualifications as may be determined by said vote, which may be the same or different from the preferences, designations, rights, privileges, powers, restrictions, limitations and qualifications of the classes of stock of the Corporation then authorized and/or the Corporation may increase or decrease the number of shares of one or more of the classes of stock then authorized.

(m) All stock of the Corporation without nominal or par value whether authorized herein or upon subsequent increases of capital stock or pursuant to any amendment hereof may be issued, sold and disposed of by the Corporation from time to time for such consideration in labor, services, money or property as may be fixed from time to time by the Board of Directors and authority to the Board of Directors so to fix such consideration is hereby granted by the shareholders. The consideration received by the Corporation from the issuance and sale of new or additional shares of capital stock without par value shall be entered in the capital stock account.

(n) No holder of any stock of the Corporation shall be entitled as of right to purchase or subscribe for any part of any stock of the Corporation authorized herein or of any additional stock of any class to be issued by reason of any increase of the authorized capital stock of the Corporation or of any bonds, certificates of indebtedness, debentures or other securities convertible into stock of the Corporation but any stock authorized herein or any such additional authorized issue of any stock or of securities convertible into stock may be issued and disposed of by the Board of Directors to such persons, firms, corporations or associations upon such terms and conditions as the Board of Directors in their discretion may determine without offering any thereof on the same terms or any terms to the shareholders then of record or to any class of shareholders.

(o) (1) SERIES I. There is hereby established a ninth series of the Preferred Stock of the Corporation which shall have, in addition to the general terms and characteristics of all of the authorized shares of Preferred Stock of the Corporation, the following distinctive terms and characteristics:

(a) The ninth series of Preferred Stock of the Corporation shall consist of 500,000 shares and be designated as "$8.625 Preferred Stock, Series I."

(b) Said ninth series shall have a dividend rate of $8.625 per share per annum.

(c) The amount payable upon the shares of said ninth series in the event of dissolution, liquidation or winding up of the Corporation shall be $100.00 per share plus an amount equivalent to the accumulated and unpaid dividends thereon, if any, to the date of such dissolution, liquidation or winding up.

(d) (i) As and for a sinking fund for the redemption of shares of said ninth series, on June 15, 1996 and each June 15 thereafter until all shares of said ninth series shall have been retired, the Corporation shall redeem 100,000 shares of said ninth series at the price of $100.00 per share plus an amount equivalent to the accumulated and unpaid dividends thereon, if any, to the date fixed for redemption. The Corporation shall be entitled, at its option, on June 15, 1996 and each June 15 thereafter, to redeem up to 100,000 shares of said ninth series, in addition to the shares otherwise required to be redeemed on such date, at $100.00 per share plus an amount equivalent to the accumulated and unpaid dividends thereon, if any, to the date fixed for redemption; provided, however, that the option of the Corporation to so redeem up to 100,000 additional shares of the ninth series on each such sinking fund redemption date shall not be cumulative and shall not reduce the sinking fund requirements of this subparagraph (d) in any subsequent year. In the case of any redemption pursuant to this paragraph (d), the shares to be redeemed shall be selected by lot among the holders of the shares of said ninth series then outstanding in such manner as the appropriate Officers of the Corporation shall determine to result in a random selection. The shares of said ninth series shall not be redeemable at the option of the Corporation except as set forth in this subparagraph (d).

(ii) The sinking fund requirement of the Corporation to redeem shares of said ninth series pursuant to this subparagraph (d) shall be subject to any applicable restrictions of law and such redemption shall be made only out of funds legally available therefor.

(iii) The sinking fund requirement of the Corporation to redeem shares of said ninth series pursuant to this subparagraph (d) shall be cumulative. If at any time the Corporation shall not have satisfied in full the cumulative sinking fund requirement to redeem shares of said ninth series, the Corporation shall not pay or declare and set apart for payment any dividends upon, or make any other distribution with respect to, or redeem, purchase or otherwise acquire any shares of, the Common Stock or any other class of stock ranking as to dividends and distributions of assets junior to the Preferred Stock.

(iv) If at any time the Corporation shall not have satisfied in full the cumulative sinking fund requirement to redeem shares of said ninth series pursuant to this subparagraph (d), and if at such time the Corporation shall be required pursuant to a sinking or similar fund to redeem or purchase shares of any other series of the Preferred Stock or any other class of stock ranking as to dividends and distributions of assets on a parity with the Preferred Stock, any funds of the Corporation legally available for the purpose shall be allocated among all such sinking or similar funds for series of the Preferred Stock and such parity stock in proportion to the respective amounts then required for the satisfaction thereof.

(e) The shares of said ninth series shall not, by their terms, be convertible.

(2) SERIES K. There is hereby established an eleventh series of the Preferred Stock of the Corporation which shall have, in addition to the general terms and characteristics of all of the authorized shares of Preferred Stock of the Corporation, the following distinctive terms and characteristics:

(a) The eleventh series of Preferred Stock of the Corporation shall consist of 350,000 shares and be designated as "$6.95 Preferred Stock, Series K."

(b) Said eleventh series shall have a dividend rate of $6.95 per share per annum.

(c) The amount payable upon the shares of said eleventh series in the event of dissolution, liquidation or winding up of the Corporation shall be $100.00 per share plus an amount equivalent to accumulated and unpaid dividends thereon, if any, to the date of such dissolution, liquidation or winding up.

(d) (i) As and for a sinking fund for the redemption of shares of said eleventh series, on September 15, 2002, and on each September 15 thereafter to and including September 15, 2006, the Corporation shall redeem 17,500 shares of said eleventh series, and on September 15, 2007, the Corporation shall redeem all of the shares of said eleventh series then outstanding, in each case at the price of $100.00 per share plus an amount equivalent to the accumulated and unpaid dividends thereon, if any, to the date fixed for redemption. The Corporation shall be entitled, at its option, on September 15, 2002, and on each September 15 thereafter to and including September 15, 2006, to redeem up to 17,500 shares of said eleventh series, in addition to the shares otherwise required to be redeemed on such date, at the price of $100.00 per share plus an amount equivalent to the accumulated and unpaid dividends thereon, if any, to the date fixed for redemption; provided, however, that the option of the Corporation to so redeem up to 17,500 additional shares of the eleventh series on each such sinking fund redemption date shall not be cumulative and shall not reduce the sinking fund requirements of this subparagraph (d) in any subsequent year. The Corporation shall be entitled, at its option, to credit against any sinking fund redemption requirement any shares of said eleventh series theretofore purchased or otherwise acquired by the Corporation and not theretofore credited against any other sinking fund redemption requirement. In the case of any redemption pursuant to this subparagraph (d), the shares to be redeemed shall be selected by lot among the holders of the shares of said eleventh series then outstanding in such manner as the appropriate Officers of the Corporation shall determine to result in a random selection. The shares of said eleventh series shall not be redeemable at the option of the Corporation except as set forth in this subparagraph (d).

(ii) The sinking fund requirement of the Corporation to redeem shares of said eleventh series pursuant to this subparagraph (d) shall be subject to any applicable restrictions of law and such redemption shall be made only out of funds legally available therefor.

(iii) The sinking fund requirement of the Corporation to redeem shares of said eleventh series pursuant to this subparagraph (d) shall be cumulative. If at any time the Corporation shall not have satisfied in full the cumulative sinking fund requirement to redeem shares of said eleventh series, the Corporation shall not pay or declare and set apart for payment any dividends upon, or make any other distribution with respect to, or redeem, purchase or otherwise acquire any shares of, the Common Stock or any other class of stock ranking as to dividends and distributions of assets junior to the Preferred Stock.

(iv) If at any time the Corporation shall not have satisfied in full the cumulative sinking fund requirement to redeem shares of said eleventh series pursuant to this subparagraph (d), and if at such time the Corporation shall be required pursuant to a sinking or similar fund to redeem or purchase shares of any other series of the Preferred Stock or any other class of stock ranking as to dividends and distributions of assets on a parity with the Preferred Stock, any funds of the Corporation legally available for the purpose shall be allocated among all such sinking or similar funds for series of the Preferred Stock and such parity

stock in proportion to the respective amounts then required for the satisfaction thereof.

(e) The shares of said eleventh series shall not, by their terms, be convertible.

(3) SERIES L. There is hereby established a twelfth series of the Preferred Stock of the Corporation which shall have, in addition to the general terms and characteristics of all of the authorized shares of Preferred Stock of the Corporation, the following distinctive terms and characteristics:

(a) The twelfth series of Preferred Stock of the Corporation shall consist of 1,540,086 shares and be designated as "$12.40 Preferred Stock, Convertible Series L".

(b) Said twelfth series shall have a dividend rate of $12.40 per share per annum; provided, however, that the amount of the dividend per share payable on December 15, 1998 shall be $3.10.

(c) The shares of said twelfth series shall not, by their terms, be redeemable.

(d) The amount payable upon the shares of said twelfth series in the event of dissolution, liquidation or winding up of the Corporation shall be $182.8125 per share plus an amount equivalent to accumulated and unpaid dividends thereon, if any, to the date of such dissolution, liquidation or winding up.

(e) There shall be no sinking fund for the redemption or purchase of shares of said twelfth series.

(f) (i)(A) Each share of said twelfth series shall be mandatorily converted on November 1, 2001 (the "Mandatory Conversion Date") into (1) a number of shares of Common Stock determined by reference to the Common Equivalent Rate (as hereinafter defined) then in effect plus (2) the right to receive an amount, in cash, equivalent to the accumulated and unpaid dividends on such share of said twelfth series, if any, to but excluding the Mandatory Conversion Date.

(B) Each share of said twelfth series shall be convertible, at the option of the Company, at any time on or after December 15, 1998 and prior to the Mandatory Conversion Date, into (1) a number of shares of Common Stock equal to the Optional Conversion Price then in effect, (2) the right to receive an amount, in cash, equivalent to the accumulated and unpaid dividends on the share of said twelfth series to be converted to but excluding the date fixed for conversion plus (3) the right to receive the Optional Conversion Premium; it being understood that the Company may not so convert less than all shares of said twelfth series.

(C) Each share of said twelfth series shall be mandatorily converted, at the time of effectiveness of any Extraordinary Transaction, into, or into the right to receive, as the case may be, securities and other property (including cash) of the same character and in the same respective amounts as the holder of such share would have received if such share had been converted pursuant to clause (B) above immediately prior to such time of effectiveness.

(ii)(A) The "Common Equivalent Rate" shall be initially ten shares of Common Stock for each share of said twelfth series; provided, however, that the Common Equivalent Rate shall be subject to adjustment from time to time as provided below. All adjustments to the Common Equivalent Rate shall be calculated to the nearest 1/100th of a share of Common Stock. Such rate, as adjusted and in effect at any time, is herein called the "Common Equivalent Rate."

(B) If the Corporation shall do any of the following (each, an "Adjustment Event"):

(1) pay a dividend or make a distribution with respect to Common Stock in shares of Common Stock,

(2) subdivide, reclassify or split its outstanding shares of Common Stock into a greater number of shares,

(3) combine or reclassify its outstanding shares of Common Stock into a smaller number of shares, or

(4) issue by reclassification of its shares of Common Stock any shares of Common Stock other than in an Extraordinary Transaction (as hereinafter defined),

then the Common Equivalent Rate in effect immediately prior to such Adjustment Event shall be adjusted so that on the Mandatory Conversion Date each share of said twelfth series shall be converted into the number of shares of Common Stock that the holder of such share would have owned or been entitled to receive after the happening of the Adjustment Event had such share been mandatorily converted immediately prior to the record date, if any, for such Adjustment Event or, if there is no record date, immediately prior to the effectiveness of such Adjustment Event. In case the Adjustment Event is a dividend or distribution, the adjustment to the Common Equivalent Rate shall become effective as of the close of business on the record date for determination of shareholders entitled to receive such dividend or distribution and any shares of Common Stock issuable in payment of a dividend shall be deemed to have been issued immediately prior to the close of business on the record date for such dividend for purposes of calculating the number of outstanding shares of Common Stock under clauses (C) and (D) below; and, in case the Adjustment Event is a subdivision, split, combination or reclassification, the adjustment to the Common Equivalent Rate shall become effective immediately after the effective date of such subdivision, split, combination or reclassification. Such adjustment shall be made successively.

In the event that Rights are separated from the outstanding shares of the Common Stock in accordance with the provisions of the Rights Agreement such that holders of shares of said twelfth series would not be entitled to receive any Rights in respect of the shares of Common Stock issuable upon conversion of the shares of said twelfth series, the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect on the Distribution Date (as defined in the Rights Agreement) by a fraction (1) the numerator of which shall be the Current Market Price per share of the outstanding shares of Common Stock on the Trading Date next preceding the Distribution Date and (2) the denominator of which shall be such Current Market Price less the fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive, final and binding on the Corporation and all shareholders of the Corporation) as of such Distribution Date of the portion of the Rights allocable to one share of Common Stock. Such adjustment shall become effective on the opening of business on the business day next following the Distribution Date and will remain in effect unless and until (A) the Company (i) amends the Rights Agreement to provide that upon conversion of the shares of said twelfth series the holders thereof will receive, in addition to the shares of Common Stock issuable upon such conversion, the Rights which would have attached to such shares of Common Stock if the Rights had not become separated from the Common Stock pursuant to the Rights Agreement and (ii) converts the Preferred Stock into shares of Common Stock with such Rights or (B) the

Rights expire, terminate or are redeemed, in which case appropriate adjustments, if any, shall be made to the Common Equivalent Rate consistent with the provisions of this subparagraph (f)(i). Notwithstanding the foregoing, in the event the aforesaid fair market value of the portion of the Rights allocable to one share of Common Stock is equal to or greater than the Current Market Price per share of Common Stock on the Trading Date mentioned above, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of shares of said twelfth series shall have the right to receive upon conversion the number of shares of Common Stock such holder would have received had the shares of said twelfth series been mandatorily converted immediately prior to the Distribution Date.

(C) If the Corporation shall, after the date of the initial issuance of shares of said twelfth series, issue rights or warrants to all holders of the Common Stock entitling them for a period not exceeding 45 days from the date of such issuance to subscribe for or purchase shares of Common Stock at a price per share less than the Current Market Price of the Common Stock (as hereinafter defined), on the record date for the determination of shareholders entitled to receive such rights or warrants, then in each case the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect immediately prior to the date of issuance of such rights or warrants by a fraction (1) the numerator of which shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights or warrants and (2) the denominator of which shall be the number of shares of Common Stock outstanding on the date of issuance of such rights or warrants, immediately prior to such issuance, plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so offered for subscription or purchase pursuant to such rights or warrants would purchase at such Current Market Price (determined by multiplying such total number of shares by the exercise price of such rights or warrants and dividing the product so obtained by such Current Market Price). Such adjustment shall become effective as of the close of business on the record date for the determination of shareholders entitled to exercise such rights or warrants. To the extent that shares of Common Stock are not delivered after the expiration of such rights or warrants, the Common Equivalent Rate shall be readjusted to the Common Equivalent Rate which would then be in effect had the adjustments made upon the issuance of such rights or warrants been made upon the basis of delivery of only the number of shares of Common Stock actually delivered. Such adjustment shall be made successively.

(D) If the Corporation shall pay a dividend or make any other distribution to all holders of its Common Stock of evidences of its indebtedness or other assets (including shares of capital stock of the Corporation (other than Common Stock) but excluding any distributions and dividends referred to in clause (B) above or any cash dividends), or shall issue to all holders of its Common Stock rights or warrants to subscribe for or purchase any of its securities (other than those referred to in clause (C) above), then, in each such case, the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect on the record date for the determination of shareholders entitled to receive such dividend or distribution mentioned below by a fraction (1) the numerator of which shall be the Current Market Price of the Common Stock on such record date and (2) the denominator of which shall be such Current Market Price per share of Common Stock less the fair market value (as determined by the Board of Directors of the Corporation, whose determination shall be conclusive, as final and binding upon the Corporation and all shareholders of the Corporation) as of such

record date of the portion of the assets or evidences of indebtedness so distributed, or of such subscription rights or warrants, allocable to one share of Common Stock. Such adjustment shall become effective on the opening of business on the business day next following the record date for the determination of the shareholders entitled to receive such dividend or distribution. Notwithstanding the foregoing, in the event the portion of the assets or other evidences of indebtedness so distributed allocable to one share of Common Stock has a value equal to or greater than the Current Market Price per share of Common Stock on the record date mentioned above, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of shares of said twelfth series shall have the right to receive upon conversion assets or other evidences of indebtedness having a value in the amount such holder would have received had the shares of said twelfth series been mandatorily converted immediately prior to the record date for such dividend or distribution.

(E) If the Corporation shall pay a dividend or make any other distribution to all holders of its Common Stock exclusively in cash (excluding any quarterly cash dividend on Common Stock in any quarter to the extent it does not exceed $.16 per share (as adjusted to reflect subdivisions or combinations of Common Stock)) the Common Equivalent Rate shall be adjusted by multiplying the Common Equivalent Rate in effect on the record date for the determination of the shareholders entitled to receive such dividend or distribution by a fraction (1) the numerator of which shall be such Current Market Price per share of the Common Stock on such record date and (2) the denominator of which shall be such Current Market Price less the amount of cash so distributed (and not excluded as provided above) allocable to one share of Common Stock. Such adjustment shall become effective immediately prior to the opening of business on the business day next following record date. Notwithstanding the foregoing, in the event the portion of the cash so distributed allocable to one share of Common Stock is equal to or greater than the Current Market Price per share of Common Stock on the record date mentioned above, in lieu of the foregoing adjustment, adequate provision shall be made so that each holder of shares of said twelfth series shall have the right to receive upon conversion the amount of cash such holder would have received had the shares of said twelfth series been mandatorily converted immediately prior to the record date for such dividend or distribution. If an adjustment is required to be made pursuant to this clause (E) as a result of a distribution that is a quarterly dividend, such adjustment shall be based upon the amount by which such distribution exceeds the amount of the quarterly cash dividend permitted to be excluded as provided above; and an adjustment is required to be made pursuant to this clause (E) as a result of a distribution that is not a quarterly dividend, such adjustment shall be based upon the full amount of the distribution.

(F) Anything herein to the contrary notwithstanding, the Corporation may, at its option, make such upward adjustment in the Common Equivalent Rate, in addition to the adjustments specified above, as the Corporation in its sole discretion may determine to be advisable, in order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or a distribution of securities convertible into or exchangeable for stock (or any transaction that could be treated as any of the foregoing transactions pursuant to Section 305 of the Internal Revenue Code of 1986, as amended) hereafter made by the Corporation to its shareholders shall not be taxable. Any such adjustment shall be made effective as of such date as the Board of Directors of the Corporation shall determine. The determination of the Board of Directors of the Corporation as to whether or not such an adjustment to the Common Equivalent Rate should be made and, if so, as to what adjustment

should be made and when, shall be conclusive, final and binding on the Corporation and all shareholders of the Corporation.

(G) As used herein, the "Current Market Price" of a share of Common Stock on any date shall be, except as otherwise specifically provided, the average of the daily Closing Prices (as hereinafter defined) for the five consecutive Trading Dates (as hereinafter defined) ending on and including the date of determination of the Current Market Price; provided, however, that if the Closing Price of the Common Stock on the Trading Date next following such five-day period (the "next-day closing price") is less than 95% of such average Closing Price, then the Current Market Price per share of Common Stock on such date of determination will be the next-day Closing Price; and provided, further, that with respect to any conversion or antidilution adjustment, if any event that results in an adjustment of the Common Equivalent Rate occurs during the period beginning on the first date of the applicable determination period and ending on the applicable conversion date, the Current Market Price as determined pursuant to the foregoing will be appropriately adjusted to reflect the occurrence of such event.

(H) In any case in which an adjustment as a result of any event is required to become effective as of the close of business on the record date for such event and the Mandatory Conversion Date occurs after such record date but before the occurrence of such event, the Corporation may in its sole discretion elect to defer the following until after the occurrence of such event (but shall be under no obligation to do so): (1) issuing to the holder of any converted shares of said twelfth series the additional shares of Common Stock issuable upon such conversion as a result of such adjustment and (2) paying to such holder any amount in cash in lieu of a fractional share of Common Stock as hereinafter provided.

(iii) Whenever the Common Equivalent Rate is adjusted as herein provided, the Corporation shall:

(A) forthwith compute the adjusted Common Equivalent Rate in accordance herewith and prepare a certificate signed by the President, any Vice President or the Treasurer of the Corporation setting forth the adjusted Common Equivalent Rate, the method of calculation thereof in reasonable detail and the facts requiring such adjustment and upon which such adjustment is based, which certificate shall be conclusive, final and binding evidence of the correctness of the adjustment, and file such certificate forthwith with the transfer agent or agents for the shares of said twelfth series and for the Common Stock; and

(B) mail a notice stating that the Common Equivalent Rate has been adjusted, the facts requiring such adjustment and upon which such adjustment is based and setting forth the adjusted Common Equivalent Rate to the holders of record of the outstanding shares of said twelfth series at or prior to the time the Corporation mails an interim statement to its shareholders covering the fiscal quarter during which the facts requiring such adjustment occurred, but in any event within 45 days of the end of such fiscal quarter.

(iv) No fractional shares or scrip representing fractional shares of Common Stock shall be issued upon the conversion of any shares of said twelfth series. Instead of any fractional interest in a share of Common Stock which would otherwise be deliverable upon the conversion of a share of said twelfth series, the Corporation shall pay to the holder of such share an amount in cash (computed to the nearest cent) equal to the same fraction of the Current Market Price of the Common Stock determined as of the second Trading Date immediately preceding (i) the

day on which the Company gives notice of an option conversion, (ii) in the event of an Extraordinary Transaction, the effective date of such transaction or (iii) in the event of a mandatory conversion, the Mandatory Conversion Date. If more than one share of any holder shall be converted at the same time, the number of full shares of Common Stock into which such shares shall be converted shall be computed on the basis of the aggregate number of shares so converted.

(v) Definitions. As used with respect to the shares of said twelfth series:

(A) the term "business day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the State of Washington or the State of New York are authorized or obligated by law or executive order to remain closed or are closed because of a banking moratorium or otherwise;

(B) the term "Closing Price" on any day shall mean the reported last sale price on such day, or, in case no such sale takes place on such day, the average of the reported last bid and asked prices on such day, in either case as reported on the Consolidated Tape maintained by the Consolidated Tape Association, or, if the Common Stock is not listed or admitted to trading on any securities exchange which participates in the Consolidated Tape Association, the average of the reported last bid and asked prices regular way (with any relevant due bills attached) of the Common Stock on the over-the-counter market on the day in question as reported by the National Association of Securities Dealers Automated Quotation System, or a similar generally accepted reporting service, or if no information of such character shall be available, as determined in good faith by the Board of Directors on the basis of such relevant factors as the Board of Directors in good faith considers appropriate, (such determination to be conclusive, final and binding upon the Corporation and all shareholders of the Corporation);

(C) the term "Extraordinary Transaction" shall mean a merger or consolidation of the Corporation, a share exchange, division or conversion of the Corporation's capital stock or an amendment of the Restated Articles of Incorporation of the Corporation that results in the conversion or exchange of Common Stock into, or the right of the holders thereof to receive, in lieu of or in addition to their shares of Common Stock, other securities or other property (whether of the Corporation or any other entity);

(D) the term "Notice Date" with respect to any notice given by the Corporation in connection with a conversion of any of the Shares of said twelfth series shall be the date of the commencement of the mailing of such notice to the holders of such shares as specified herein;

(E) the term "Optional Conversion Premium" shall mean, in respect of each share of said twelfth series converted at the option of the Company, an amount, in cash, initially equal to $20.90, declining by $.02111 for each day following December 15, 1998 to and including the optional conversion date (computed on the basis of a 360-day year consisting of twelve 30-day months) and equal to $0 on and after September 15, 2001; provided, however, that in lieu of delivering such amount in cash, the Company may, at its option, deliver a number of shares of Common Stock equal to the quotient of such amount divided by the Current Market Price on the second Trading Date immediately preceding (1) the date on which the Company gives notice of such conversion or (2) in the event of an Extraordinary Transaction, the effective date of such transaction;

(F) the term "Optional Conversion Price" shall mean, in respect of each share of said twelfth series converted at the option of the Company, a number of shares of Common Stock equal to the lesser of (1) the amount of $24.00

divided by the Current Market Price as of the second Trading Date immediately preceding (a) the date on which the Company gives notice of such conversion or (b) in the event of an Extraordinary Transaction, the effective date of such transaction, multiplied by ten and (2) the number of shares of Common Stock determined by reference to the Common Equivalent Rate;

(G) the term "Rights Agreement" shall mean the Rights Agreement, dated as of February 16, 1990, between the Company and The Bank of New York, successor Rights Agent, as amended; and the term "Rights" shall mean the "Preferred Share Purchase Rights" established under the Rights Agreement; and

(H) the term "Trading Date" shall mean a date on which the New York Stock Exchange (or any successor to such Exchange) is open for the transaction of business.

(vi)(A) Unless otherwise required by applicable law, notice of any conversion shall be sent to the holders of the shares of said twelfth series to be converted at the addresses shown on the books of the Corporation by mailing a copy of such notice not less than fifteen (15) days nor more than sixty (60) days prior to the conversion date. Each such notice shall state (1) the conversion date, (2) the total number of shares of said twelfth series to be converted (being the total number of shares outstanding), (3) the conversion price, (4) the place or places where certificates for such shares are to be surrendered in exchange for certificates and/or cash representing the conversion price and (5) that dividends on the shares to be converted will cease to accrue on such conversion date. Notwithstanding the foregoing, the failure so to mail any such notice of mandatory conversion or any defect therein or in the mailing thereof shall not prevent the occurrence of such conversion or impair the validity thereof.

(B) The shares of said twelfth series shall, on the date fixed for conversion, be deemed to have been converted; from and after such conversion date dividends shall cease to accrue on such shares; and all rights of the holders of such shares (except only rights as holders of securities into which such shares shall have been converted and the right to receive certificates representing such securities and the right to receive an amount equal to dividends accrued on such shares to the date fixed for such conversion) shall terminate.

(vii) Upon the surrender by a holder of converted shares of said twelfth series of certificates representing such shares in accordance with the notice of conversion on or after the conversion date, the Corporation shall deliver to or upon the order of such holder:

(A) certificates representing whole units of the securities into which such shares of said twelfth series have been converted, such certificates to be registered in such name or names, and to be issued in such denominations, as such holder shall have specified;

(B) an amount, in cash, in lieu of fractional shares, as hereinbefore provided;

(C) an amount, in cash, equivalent to accumulated and unpaid dividends on such shares of Series A Preferred Stock to the conversion date;

(D) an amount, in cash, securities or other property, representing any other consideration to be delivered upon such conversion; and

(E) a certificate representing any shares of said twelfth series which had been represented by the certificate or certificates delivered to the Corporation in connection with such conversion but which were not converted.

(viii) The Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock or other securities on the conversion of shares of said twelfth series; provided, however, that the Corporation shall not be required to pay any tax which may be payable in respect of any registration of transfer involved in the issue or delivery of shares of Common Stock or other securities in a name other than that of the registered holder of the shares converted, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

FOURTH: The duration of the Corporation shall be perpetual.

FIFTH: The number of Directors of the Corporation shall be such number, not to exceed eleven (11), as shall be specified from time to time by the Board of Directors in the Bylaws; provided, however, that if the right to elect a majority of the Board of Directors shall have accrued to the holders of the Preferred Stock as provided in paragraph (1) of subdivision (j) of Article THIRD, then, during such period as such holders shall have such right, the number of directors may exceed eleven (11). The Directors shall be divided into three classes, as nearly equal in number as possible. Commencing with the directors elected at the 1987 Annual Meeting of Shareholders, the term of office of the first class shall expire at the 1988 Annual Meeting of Shareholders, the term of office of the second class shall expire at the 1989 Annual Meeting of Shareholders and the term of office of the third class shall expire at the 1990 Annual Meeting of Shareholders. At each Annual Meeting of Shareholders thereafter, Directors elected to succeed those Directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election. Notwithstanding the foregoing, Directors elected by the holders of the Preferred Stock in accordance with paragraph (1) of subdivision (j) of Article THIRD shall be elected for a term which shall expire not later than the next Annual Meeting of Shareholders. All Directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified.

Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD, (a) any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors and any director so elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office and (b) any directorship to be filled by reason of an increase in the number of Directors may be filled by the Board of Directors for a term of office continuing only until the next election of Directors by the shareholders.

No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD and the provisions of the next preceding paragraph of this Article FIFTH, any Director may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of capital stock of the Corporation entitled generally to vote in the election of directors (such stock being hereinafter in these Articles of Incorporation called "Voting Stock"), voting together as a single class, at a meeting of shareholders called expressly for that purpose; provided, however, that if less than the entire Board of Directors is to be removed, no one of the directors may be removed if the votes cast against the removal of such director would be sufficient to elect such director if then cumulatively voted at an election of the class of Directors of which such director is a part.

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the provisions of this Article FIFTH shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the shares of the Voting Stock, voting together as a single class.

SIXTH: That the principal place of business of said Corporation shall be Spokane, Spokane County, Washington.

SEVENTH: The corporate powers shall be exercised by the Board of Directors, except as otherwise provided by statute or by these Articles of Incorporation. The Board of Directors shall have power to authorize the payment of compensation to the Directors for services to the Corporation, including fees for attendance at meetings of the Board of Directors and other meetings, and to determine the amount of such compensation and fees.

The Board of Directors shall have power to adopt, alter, amend and repeal the Bylaws of the Corporation. To the extent provided under the laws of the state of Washington, any Bylaws adopted by the Directors under the powers conferred hereby may be repealed or changed by the shareholders.

An Executive Committee may be appointed by and from the Board of Directors in such manner and subject to such regulations as may be provided in the Bylaws, which committee shall have and may exercise, when the Board is not in session, all the powers of said Board which may be lawfully delegated subject to such limitations as may be provided in the Bylaws or by resolutions of the Board. The fact that the Executive Committee has acted shall be conclusive evidence that the Board was not in session at the time of such action. Additional committees may be appointed by and from the Board of Directors in such manner and subject to such regulations as may be provided in the Bylaws. Any action required or permitted by these Articles of Incorporation to be taken by the Board of Directors of the Corporation may be taken by a duly authorized committee of the Board of Directors, except as otherwise required by law.

No Director shall have any personal liability to the Corporation or its shareholders for monetary damages for his or her conduct as a Director of the Corporation; provided, however, that nothing herein shall eliminate or limit any liability which may not be so eliminated or limited under Washington law, as from time to time in effect. No amendment, modification or repeal of this paragraph shall eliminate or limit the protection afforded by this paragraph with respect to any act or omission occurring prior to the effective date thereof.

The Corporation shall, to the full extent permitted by applicable law, as from time to time in effect, indemnify any person made a party to, or otherwise involved in, any proceeding by reason of the fact that he or she is or was a Director of the Corporation against judgments, penalties, fines, settlements and reasonable expenses actually incurred by him or her in connection with such proceeding. The Corporation shall pay any reasonable expenses incurred by a Director in connection with any such proceeding in advance of the final determination thereof upon receipt from such Director of such undertakings for repayment as may be required by applicable law and a written affirmation by such director that he or she has met the standard of conduct necessary for indemnification, but without any prior determination, which would otherwise be required by Washington law, that such standard of conduct has been met. The Corporation may enter into agreements with each Director obligating the Corporation to make such indemnification and advances of expenses as are contemplated herein. Notwithstanding the foregoing, the Corporation shall not make any indemnification or advance which is prohibited by applicable law. The rights to indemnity and advancement of expenses granted herein shall continue as to any person who has ceased to be a Director and shall inure to the benefit of the heirs, executors and administrators of such a person.

A Director of the Corporation shall not be disqualified by his office from dealing or contracting with this Corporation either as a vendor, purchaser or otherwise, nor shall any transaction or contract of the Corporation be void or voidable by reason of the fact that any Director, or any firm of which any Director is a member, or any corporation of which any Director is a shareholder or Director, is in any way interested in such transaction or contract, provided that such transaction or contract is or shall be authorized, ratified, or approved, either (1) by vote of a majority of a quorum of the Board of Directors or of the Executive Committee without counting in such majority or quorum any Directors so interested, or a member of a firm so interested, or a shareholder or Director of a corporation so interested; or (2) by the written consent or by vote at a shareholders' meeting of the holders of record of a majority in number of all the outstanding shares of capital stock of the Corporation entitled to vote; nor shall any Director be liable to account to the Corporation for any profits realized by and from or through any such transaction

or contract of the Corporation authorized, ratified, or approved as aforesaid by reason of the fact that he, or any firm of which he is a member, or any corporation of which he is a shareholder or a Director, was interested in such transaction or contract. Nothing herein contained shall create any liability in the events above described or prevent the authorization, ratification or approval of such transaction or contract in any other manner approved by law.

Shareholders shall have no rights, except as conferred by statute or by the Bylaws, to inspect any book, paper or account of the Corporation.

Any property of the Corporation not essential to the conduct of its corporate business may be sold, leased, exchanged, or otherwise disposed of, by authority of its Board of Directors and the Corporation may sell, lease, exchange or otherwise dispose of, all of its property and franchises, or any of its property, franchises, corporate rights, or privileges, essential to the conduct of its corporate business and purposes upon the consent of and for such consideration and upon such terms as may be authorized by a majority of all of the Directors and the holders of two-thirds of the issued and outstanding shares of the Corporation having voting power (or, if the consent or vote of a larger number or different proportion of the Directors and/or shares is required by the laws of the state of Washington, notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the consent or vote of the larger number or different proportion of the Directors and/or shares so required) expressed in writing, or by vote at a meeting of holders of the shares of the Corporation having voting power duly held as provided by law, or in the manner provided by the Bylaws of the Corporation, if not inconsistent therewith.

Upon the affirmative vote of the holders of two-thirds of the issued and outstanding shares of the Corporation having voting power given at a meeting of the holders of the shares of the Corporation having voting power duly called for that purpose or when authorized by the written consent of the holders of two-thirds of the issued and outstanding shares of the Corporation having voting power and upon the vote of a majority of the Board of Directors, all of the property, franchises, rights and assets of the Corporation may be sold, conveyed, assigned and transferred as an entirety to a new company to be organized under the laws of the United States, the state of Washington or any other state of the United States, for the purpose of so taking over all the property, franchises, rights and assets of the Corporation, with the same or a different authorized number of shares of stock and with the same preferences, voting powers, restrictions and qualifications thereof as may then attach to the classes of stock of the Corporation then outstanding so far as the same shall be consistent with such laws of the United States or of Washington or of such other state (provided that the whole or any part of such stock or of any class thereof may be stock with or without a nominal or par value), the consideration for such sale and conveyance to be the assumption by such new company of all of the then outstanding liabilities of the Corporation and the issuance and delivery by the new company of shares of stock (any or all thereof either with or without nominal or par value) of such new company of the several classes into which the stock of the Corporation is then divided equal in number to the number of shares of stock of the Corporation of said several classes then outstanding. In the event of such sale, each holder of stock of the Corporation agrees so far as he may be permitted by the laws of Washington forthwith to surrender for cancellation his certificate or certificates for stock of the Corporation and to receive and accept in exchange therefor, as his full and final distributive share of the proceeds of such sale and conveyance and of the assets of the Corporation, a number of shares of the stock of the new company of the class corresponding to the class of the shares surrendered equal in number to the shares of stock of the Corporation so surrendered, and in such event no holder of any of the stock of the Corporation shall have any rights or interests in or against the Corporation, except the right upon surrender of his certificate as aforesaid properly endorsed, to receive from the Corporation certificates for such shares of said new company as herein provided. Such new company may have all or any of the powers of the Corporation and the certificate of incorporation and bylaws of such new company may contain all or any of the provisions contained in the Articles of Incorporation and Bylaws of the Corporation.

Upon the written assent, in person or by proxy, or pursuant to the affirmative vote, in person or by proxy, of the holders of a majority in number of the shares then outstanding and entitled to vote (or, if the assent or vote of a larger number or different proportion of shares is required by the laws of the state of Washington notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the assent or vote of the larger number or different proportion of the shares so required) (1) any or every statute of the state of Washington hereafter enacted, whereby the rights, powers or

privileges of the Corporation are or may be increased, diminished, or in any way affected, or whereby the rights, powers or privileges of the shareholders of corporations organized under the law under which the Corporation is organized are increased, diminished or in any way affected or whereby effect is given to the action taken by any part less than all of the shareholders of any such corporation shall, notwithstanding any provision which may at the time be contained in these Articles of Incorporation or any law, apply to the Corporation, and shall be binding not only upon the Corporation but upon every shareholder thereof, to the same extent as if such statute had been in force at the date of the making and filing of these Articles of Incorporation and/or (2) amendments to said Articles authorized at the time of the making of such amendments by the laws of the state of Washington may be made; provided, however, that (a) the provisions of Article THIRD hereof limiting the preemptive rights of shareholders, requiring cumulative voting in the election of Directors and regarding entry in the capital stock account of consideration received upon the sale of shares of capital stock without nominal or par value and all of the provisions of Article FIFTH hereof shall not be altered, amended, repealed, waived or changed in any way, unless the holders of record of at least two-thirds of the number of shares entitled to vote then outstanding shall consent thereto in writing or affirmatively vote therefor in person or by proxy at a meeting of shareholders at which such change is duly considered.

Special meetings of the shareholders may be called by the President, the Chairman of the Board of Directors, a majority of the Board of Directors, any Executive Committee of the Board of Directors, and shall be called by the President at the request of the holders of at least two-thirds (2/3) of the voting power of all of the shares of the Voting Stock, voting together as a single class. Only those matters that are specified in the call of or request for a special meeting may be considered or voted upon at such meeting.

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the paragraph in this Article SEVENTH relating to the adoption, alteration, amendment, change and repeal of the Bylaws of the Corporation, the paragraph in this Article SEVENTH relating to the calling and conduct of special meetings of the shareholders and this paragraph, and the provisions of the Bylaws of the Corporation relating to procedures for the nomination of Directors, shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all the shares of the Voting Stock, voting together as a single class.

EIGHTH:

(a) In addition to any affirmative vote required by law or these Articles of Incorporation, and except as otherwise expressly provided in subdivision (b) of this Article EIGHTH:

(1) any merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) with (a) any Interested Shareholder (as hereinafter defined) or (b) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Shareholder; or

(2) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of any assets of the Corporation or any Subsidiary having an aggregate Fair Market Value of $10,000,000 or more; or

(3) the issuance or transfer by the Corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of $10,000,000 or more; or

(4) the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(5) any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any Subsidiary which is directly or indirectly owned by any Interested Shareholder or any Affiliate of any Interested Shareholder;

shall require the affirmative vote of the holders of at least 80% of the voting power of all of the shares of the Voting Stock, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required or that the vote of a lower percentage may be specified, by law or in any agreement with any national securities exchange or otherwise. The term "Business Combination" as used in this Article EIGHTH shall mean any transaction which is referred to in any one or more of paragraphs (1) through (5) of this subdivision (a).

(b) The provisions of subdivision (a) of this Article EIGHTH shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote, if any, as is required by law and any other provision of these Articles of Incorporation, if all of the conditions specified in either paragraph (1) or paragraph (2) below are met:

(1) The Business Combination shall have been approved by a majority of the Continuing Directors (as hereinafter defined); or

(2) All of the following conditions shall have been met:

(A) The aggregate amount of the cash and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be at least equal to the highest of the following:

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of Common Stock acquired by it (x) within the two-year period immediately prior to the date of the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (y) in the transaction in which it became an Interested Shareholder, whichever is higher;

(ii) the Fair Market Value per share of Common Stock on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (the "Determination Date"), whichever is higher; and

(iii) (if applicable) the price per share equal to the Fair Market Value per share of Common Stock determined pursuant to clause (A)(ii) above, multiplied by the ratio of (x) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of Common Stock acquired by it within the two-year period immediately prior to the Announcement Date to (y) the Fair Market Value per share of Common Stock on the first day in such two-year period upon which the Interested Shareholder acquired any shares of Common Stock.

(B) The aggregate amount of the cash and the Fair Market Value as of the date of the consummation of the Business Combination of consideration other than cash to be received per share by holders of shares of each class of outstanding Voting Stock (other than Common Stock and Institutional Voting Stock [as hereinafter defined]) shall be at least equal to the highest of the following (it being intended that the requirements of this subparagraph (B) shall be required to be met with respect to

every class of outstanding Voting Stock (other than Institutional Voting Stock), whether or not the Interested Shareholder has previously acquired any shares of a particular class of Voting Stock):

(i) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of such class of Voting Stock acquired by it (x) within the two-year period immediately prior to the Announcement Date or (y) in the transaction in which it became an Interested Shareholder, whichever is higher;

(ii) (if applicable) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

(iii) the Fair Market Value per share of such class of Voting Stock on the Announcement Date or on the Determination Date, whichever is higher; and

(iv) (if applicable) the price per share equal to the Fair Market Value per share of such class of Voting Stock determined pursuant to clause (B)(iii) above, multiplied by the ratio of (x) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Shareholder for any shares of such class of Voting Stock acquired by it within the two-year period immediately prior to the Announcement Date to (y) the Fair Market Value per share of such class of Voting Stock on the first day in such two-year period upon which the Interested Shareholder acquired any shares of such class of Voting Stock.

(C) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the Interested Shareholder has previously paid for shares of such class of Voting Stock. If the Interested Shareholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it.

(D) After such Interested Shareholder has become an Interested Shareholder and prior to the consummation of such Business Combination:

(i) except as approved by a majority of the Continuing Directors, there shall have been no failure to declare and pay at the regular date therefor full dividends (whether or not cumulative) on the outstanding shares of stock of all classes ranking prior as to dividends to the Common Stock;

(ii) there shall have been (x) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Continuing Directors, and (y) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure to so increase such annual rate is approved by a majority of the Continuing Directors; and

(iii) such Interested Shareholder shall not have become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Shareholder becoming an Interested Shareholder.

(E) After such Interested Shareholder has become an Interested Shareholder, such Interested Shareholder shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation, whether in anticipation of or in connection with such Business Combination or otherwise.

(F) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to shareholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

(c) For the purposes of this Article EIGHTH:

The terms "Affiliate" and "Associate" have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 1, 1987.

A person shall be deemed to be a "beneficial owner" of any Voting Stock:

(i) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly, or;

(ii) which such person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

For the purposes of determining whether a person is an Interested Shareholder the number of shares of Voting Stock deemed to be outstanding shall include all shares of which such person is the beneficial owner in accordance with the foregoing definition but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

The term "Continuing Director" means any member of the Board of Directors of the Corporation who is unaffiliated with the Interested Shareholder and was a member of the Board of Directors prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director who is unaffiliated with the Interested Shareholder and is recommended to succeed a Continuing Director by a majority of Continuing Directors then on the Board of Directors.

The term "Fair Market Value" means (i) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934, as amended, on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any system then in use, or if no

such quotations are available, the fair market value on the date in question of a share of such stock as determined by the Continuing Directors in good faith; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Continuing Directors in good faith.

The term "Interested Shareholder" shall mean any person (other than the Corporation or any Subsidiary) who or which:

(i) is the beneficial owner, directly or indirectly, of more than 10% of the voting power of the outstanding Voting Stock; or

(ii) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock; or

(iii) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.

The term "Institutional Voting Stock" shall mean any class of Voting Stock which was issued to and continues to be held solely by one or more insurance companies, pension funds, commercial banks, savings banks or similar financial institutions or institutional investors.

The term "person" shall mean any individual, firm, corporation or other entity.

The term "Subsidiary" shall mean any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the corporation; provided, however, that for the purposes of the definition of Interested Shareholder set forth above, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

The term "Voting Stock" has the meaning ascribed to such term in Article FIFTH.

In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash to be received" as used in paragraphs 2(A) and 2(B) of subdivision (b) of this Article EIGHTH shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

(d) The Directors of the Corporation shall have the power and duty to determine for the purposes of this Article EIGHTH, on the basis of information known to them after reasonable inquiry, (A) whether a person is an Interested Shareholder, (B) the number of shares of Voting Stock beneficially owned by any person, (C) whether a person is an Affiliate or Associate of another person, (D) whether a class of Voting Stock is Institutional Voting Stock, and (E) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of $10,000,000 or more.

Nothing contained in this Article EIGHTH shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the provisions of this Article EIGHTH shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the shares of the Voting Stock, voting together as a single class.

IN WITNESS WHEREOF, we have set our hands and seals under these presents, this 18th day of February 1999.

/s/ T. M. Matthews

T. M. Matthews, Chairman of the Board, President and Chief Executive Officer

ATTEST:

/s/ T. L. Syms

T. L. Syms, Vice President and Corporate Secretary

(SEAL)

Certificate

STATE OF WASHINGTON

County of Spokane ss.

T. M. MATTHEWS and T. L. SYMS, being first duly sworn on oath, depose and say:

(a) That they have been authorized to execute the within Restated Articles of Incorporation by resolution of the Board of Directors adopted on the 12th day of February 1999;

(b) That these Restated Articles of Incorporation do not include an amendment to the Articles of Incorporation; and

(c) That these Restated Articles of Incorporation supersede the original Articles of Incorporation and all amendments thereto and restatements thereof.

/s/ T. M. Matthews

T. M. Matthews, Chairman of the Board, President and Chief Executive Officer

ATTEST:

/s/ T. L. Syms

T. L. Syms, Vice President and Corporate Secretary

SUBSCRIBED AND SWORN to before me this 18th day of February 1999.

Notary Public in and for the state of Washington, residing in the County of Spokane. My commission expires _____.

(SEAL)

Exhibit 3(b)

BYLAWS
OF
AVISTA CORPORATION
* * * * *

ARTICLE I.
OFFICES

The principal office of the Corporation shall be in the City of Spokane, Washington. The Corporation may have such other offices, either within or without the State of Washington, as the Board of Directors may designate from time to time.

ARTICLE II.
SHAREHOLDERS

SECTION 1. ANNUAL MEETING. The Annual Meeting of Shareholders shall be held on such date in the month of May in each year as determined by the Board of Directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the Annual Meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called by the President, the Chairman of the Board, the majority of the Board of Directors, the Executive Committee of the Board, and shall be called by the President at the request of the holders of not less than two-thirds (2/3) of the voting power of all shares of the voting stock voting together as a single class. Only those matters that are specified in the call of or request for a special meeting may be considered or voted at such meeting.

SECTION 3. PLACE OF MEETING. Meetings of the shareholders, whether they be annual or special, shall be held at the principal office of the Corporation, unless a place, either within or without the state, is otherwise designated by the Board of Directors in the notice provided to shareholders of such meetings.

SECTION 4. NOTICE OF MEETING. Written or printed notice of every meeting of shareholders shall be mailed by the Corporate Secretary or any Assistant Corporate Secretary, not less than ten (10) nor more than fifty (50) days before the date of the meeting, to each holder of record of stock entitled to vote at the meeting. The notice shall be mailed to each shareholder at his last known post office address, provided, however, that if a shareholder is present at a meeting, or waives notice thereof in writing before or after the meeting, the notice of the meeting to such shareholders shall be unnecessary.

SECTION 5. VOTING OF SHARES. At every meeting of shareholders each holder of stock entitled to vote thereat shall be entitled to one vote for each share of such stock held in his name on the books of the Corporation, subject to the provisions of applicable law and the Articles of Incorporation, and may vote and otherwise act in person or by proxy; provided, however, that in elections of directors there shall be cumulative voting as provided by law and by the Articles of Incorporation.

SECTION 6. QUORUM. The holders of a majority of the number of outstanding shares of stock of the Corporation entitled to vote thereat, present in person or by proxy at any meeting, shall constitute a quorum, but less than a quorum shall have power to adjourn any meeting from time to time without notice. No change shall be made in this Section 6 without the affirmative vote of the holders of at least a majority of the outstanding shares of stock entitled to vote.

SECTION 7. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purposes of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty (50) days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than seventy (70) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

SECTION 8. VOTING RECORD. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten (10) days before each meeting of shareholders, a complete record of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which record, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Corporation. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof.

SECTION 9. CONDUCT OF PROCEEDINGS. The Chairman of the Board shall preside at all meetings of the shareholders. In the absence of the Chairman, the President shall preside and in the absence of both, the Executive Vice President shall preside. The members of the Board of Directors present at the meeting may appoint any officer of the Corporation or member of the Board to act as Chairman of any meeting in the absence of the Chairman, the President, or Executive Vice President. The Corporate Secretary of the Corporation, or in his absence, an Assistant Corporate Secretary, shall act as Secretary at all meetings of the shareholders. In the absence of the Corporate Secretary or Assistant Corporate Secretary at any meeting of the shareholders, the presiding officer may appoint any person to act as Secretary of the meeting.

SECTION 10. PROXIES. At all meetings of shareholders, a shareholder may vote in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Corporate Secretary of the Corporation before or at the time of the meeting.

ARTICLE III.
BOARD OF DIRECTORS

SECTION 1. GENERAL POWERS. The powers of the Corporation shall be exercised by or under the authority of the Board of Directors, except as otherwise provided by the laws of the State of Washington and the Articles of Incorporation.

SECTION 2. NUMBER AND TENURE. The number of Directors of the Corporation shall be nine (9); provided, however, that if the right to elect a majority of the Board of Directors shall have accrued to the holders of the Preferred Stock as provided in paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, then, during such period as such holders shall have such right, the number of directors may exceed nine (9). Directors shall be divided into three classes, as nearly equal in number as possible. At each Annual Meeting of Shareholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders after their election. Notwithstanding the foregoing, directors elected by the holders of the Preferred Stock in accordance with paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation shall be elected for a term which shall expire not later than the next Annual Meeting of Shareholders. All directors shall hold office until the expiration of their respective terms of office and until their successors shall have been elected and qualified.

SECTION 3. REGULAR MEETINGS. The regular annual meeting of the Board of Directors shall be held immediately following the adjournment of the annual meeting of the shareholders or as soon as practicable after said annual meeting of shareholders. But, in any event, said regular annual meeting of the Board of Directors must be held on either the same day as the annual meeting of shareholders or the next business day following said annual meeting of shareholders. At such meeting the Board of Directors, including directors newly elected, shall organize itself for the coming year, shall elect officers of the Corporation for the ensuing year, and shall transact all such further business as may be necessary or appropriate. The Board shall hold regular quarterly meetings, without call or notice, on such dates as determined by the Board of Directors. At such quarterly meetings the Board of Directors shall transact all business properly brought before the Board.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the President, the Executive Vice President or any three (3) directors. Notice of any special meeting shall be given to each director at least two (2) days in advance of the meeting.

SECTION 5. EMERGENCY MEETINGS. In the event of a catastrophe or a disaster causing the injury or death to members of the Board of Directors and the principal officers of the Corporation, any director or officer may call an emergency meeting of the Board of Directors. Notice of the time and place of the emergency meeting shall be given not less than two (2) days prior to the meeting and may be given by any available means of communication. The director or directors present at the meeting shall constitute a quorum for the purpose of filling vacancies determined to exist. The directors present at the emergency meeting may appoint such officers as necessary to fill any vacancies determined to exist. All appointments under this section shall be temporary until a special meeting of the shareholders and directors is held as provided in these Bylaws.

SECTION 6. CONFERENCE BY TELEPHONE. The members of the Board of Directors, or of any committee created by the Board, may participate in a meeting of the Board or of the committee by means of a conference telephone or similar communication equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means shall constitute presence in person at a meeting.

SECTION 7. QUORUM. A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. The action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board.

SECTION 8. ACTION WITHOUT A MEETING. Any action required by law to be taken at a meeting of the directors of the Corporation, or any action which may be taken at a meeting of the directors or of a committee, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors, or all of the members of the committee, as the case may be. Such consent shall have the same effect as a unanimous vote.

SECTION 9. VACANCIES. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, (a) any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors and any director so elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office and (b) any directorship to be filled by reason of an increase in the number of directors may be filled by the Board of Directors for a term of office continuing only until the next election of directors by the shareholders.

SECTION 10. RESIGNATION OF DIRECTOR. Any director or member of any committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein. If no time is specified, it shall take effect from the time of its receipt by the Corporate Secretary, who shall record such resignation, noting the day, hour and minute of its reception. The acceptance of a resignation shall not be necessary to make it effective.

SECTION 11. REMOVAL. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, any director may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the shares of capital stock of the Corporation entitled generally to vote in the election of directors voting together as a single class, at a meeting of shareholders called expressly for that purpose; provided, however, that if less than the entire Board of Directors is to be removed, no one of the directors may be removed if the votes cast against the removal of such director would be sufficient to elect such director if then cumulatively voted at an election of the class of directors of which such director is a part. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

SECTION 12. ORDER OF BUSINESS. The Chairman of the Board shall preside at all meetings of the directors. In the absence of the Chairman, the officer or member of the Board designated by the Board of Directors shall preside. At meetings of the Board of Directors, business shall be transacted in such order as the Board may determine. Minutes of all proceedings of the Board of Directors, or committees appointed by it, shall be prepared and maintained by the Corporate Secretary or an Assistant Corporate Secretary and the original shall be maintained in the principal office of the Corporation.

SECTION 13. NOMINATION OF DIRECTORS. Subject to the provisions of paragraph (1) of subdivision (j) of Article THIRD of the Articles of Incorporation, nominations for the election of directors may be made by the Board of Directors, or a nominating committee appointed by the Board of Directors, or by any holder of shares of the capital stock of the Corporation entitled generally to vote in the election of directors (such stock being hereinafter in this Section called "Voting Stock"). However, any holder of shares of the Voting Stock may nominate one or more persons for election as directors at a meeting only if written notice of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary not later than (i) with respect to an election to be held at an annual meeting of shareholders, ninety (90) days in advance of such

meeting and (ii) with respect to an election to be held at a special meeting of shareholders for the election of directors, the close of business on the seventh day following the date on which notice of such meeting is first given to shareholders. Each such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that such shareholder is a holder of record of shares of the Voting Stock of the Corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons identified in the notice; (c) a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (or any subsequent revisions replacing such Act, rules or regulations) if the nominee(s) had been nominated, or were intended to be nominated, by the Board of Directors; and (e) the consent of each nominee to serve as a Director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

SECTION 14. PRESUMPTION OF ASSENT. A director of the Corporation who is present at a meeting of the Board of Directors, or of a committee thereof, at which action on any corporate matter is taken, shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Corporate Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 15. RETIREMENT OF DIRECTORS. Directors who are seventy (70) years of age or more shall retire from the Board effective at the conclusion of the Annual Meeting of Shareholders held in the year in which their term expires, and any such Director shall not be nominated for election at such Annual Meeting. The foregoing shall be effective in 1988 and thereafter as to any Director who is seventy (70) years of age or more during the year in which his or her term expires.

ARTICLE IV.
EXECUTIVE COMMITTEE
AND
ADDITIONAL COMMITTEES

SECTION 1. APPOINTMENT. The Board of Directors, by resolution adopted by a majority of the Board, may designate three or more of its members to constitute an Executive Committee. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

SECTION 2. AUTHORITY. The Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors including authority to authorize distributions or the issuance of shares of stock, except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee or by law.

SECTION 3. TENURE. Each member of the Executive Committee shall hold office until the next regular annual meeting of the Board of Directors following his designation and until his successor is designated as a member of the Executive Committee.

SECTION 4. MEETINGS. Regular meetings of the Executive Committee may be held without notice at such times and places as the Executive Committee may fix from time to time by resolution. Special meetings of the Executive Committee may be called by any member thereof upon not less than two (2) days notice stating the place, date and hour of the meeting, which notice may be written or oral. Any member of the Executive Committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person.

SECTION 5. QUORUM. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business at any meeting thereof. Actions by the Executive Committee must be authorized by the affirmative vote of a majority of the appointed members of the Executive Committee.

SECTION 6. ACTION WITHOUT A MEETING. Any action required or permitted to be taken by the Executive Committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the members of the Executive Committee.

SECTION 7. PROCEDURE. The Executive Committee shall select a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these Bylaws. It shall keep regular minutes of its proceedings and report the same to the Board of Directors for its information at a meeting thereof held next after the proceedings shall have been taken.

SECTION 8. COMMITTEES ADDITIONAL TO EXECUTIVE COMMITTEE. The Board of Directors may, by resolution, designate one or more other committees, each such committee to consist of two (2) or more of the directors of the Corporation. A majority of the members of any such committee may determine its action and fix the time and place of its meetings unless the Board of Directors shall otherwise provide.

ARTICLE V.
OFFICERS

SECTION 1. NUMBER. The Board of Directors shall elect one of its members Chairman of the Board and shall elect one of its members as President of the Corporation and the offices of Chairman and President may be held by the same person. The Board of Directors shall also elect one or more Vice Presidents, a Corporate Secretary, a Treasurer and may from time to time elect such other officers as the Board deems appropriate. The same person may be appointed to more than one office except the offices of President and Corporate Secretary.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected by the Board of Directors at the annual meeting of the Board. Each officer shall hold office until his successor shall have been duly elected and qualified.

SECTION 3. REMOVAL. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 5. POWERS AND DUTIES. The officers shall have such powers and duties as usually pertain to their offices, except as modified by the Board of Directors, and shall have such other powers and duties as may from time to time be conferred upon them by the Board of Directors.

ARTICLE VI.
CONTRACTS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The Board of Directors may authorize any officer or officers or agents, to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. CHECKS/DRAFTS/NOTES. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 3. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors by resolution may select.

ARTICLE VII.
CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors and shall contain such information as prescribed by law. Such certificates shall be signed by the President or a Vice President and by either the Corporate Secretary or an Assistant Corporate Secretary, and sealed with the corporate seal or a facsimile thereof. The signatures of such officers upon a certificate may be facsimiles. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporate Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes. The Board of Directors shall have power to appoint one or more transfer agents and registrars for transfer and registration of certificates of stock.

ARTICLE VIII.
CORPORATE SEAL

The seal of the Corporation shall be in such form as the Board of Directors shall prescribe.

ARTICLE IX.
INDEMNIFICATION

SECTION 1. INDEMNIFICATION OF DIRECTORS AND OFFICERS. The Corporation shall indemnify and reimburse the expenses of any person who is or was a director, officer, agent or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another enterprise or employee benefit plan to the extent permitted by and in accordance with Article SEVENTH of the Company's Articles of Incorporation and as permitted by law.

SECTION 2. LIABILITY INSURANCE. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, other enterprise, or employee benefit plan against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the laws of the State of Washington.

SECTION 3. RATIFICATION OF ACTS OF DIRECTOR, OFFICER OR SHAREHOLDER. Any transaction questioned in any shareholders' derivative suit on the ground of lack of authority, defective or irregular execution, adverse interest of director, officer or shareholder, nondisclosure, miscomputation, or the application of improper principles or practices of accounting may be ratified before or after judgment, by the Board of Directors or by the shareholders in case less than a quorum of directors are qualified; and, if so ratified, shall have the same force and effect as if the questioned transaction had been originally duly authorized, and said ratification shall be binding upon the Corporation and its shareholders and shall constitute a bar to any claim or execution of any judgment in respect of such questioned transaction.

ARTICLE X.
AMENDMENTS

Except as to Section 6 of Article II of these Bylaws, the Board of Directors may alter or amend these Bylaws at any meeting duly held, the notice of which includes notice of the proposed amendment. Bylaws adopted by the Board of Directors shall be subject to change or repeal by the shareholders; provided, however, that Section 2 of the Article II, Section 2 (other than the provision thereof specifying the number of Directors of the Corporation), and Sections 9, 11 and 13 of Article III and this proviso shall not be altered, amended or repealed, and no provision inconsistent therewith or herewith shall be included in these Bylaws, without the affirmative votes of the holders of at least eighty percent (80%) of the voting power of all the shares of the Voting Stock voting together as a single class.

Exhibit 4(d)-1

EXECUTION COPY

==========

REVOLVING CREDIT AGREEMENT

(364 DAY)

among

THE WASHINGTON WATER POWER COMPANY,

THE BANKS NAMED HEREIN,

TORONTO DOMINION (TEXAS), INC.,

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

and

THE BANK OF NEW YORK

Dated as of June 30, 1998

==========

TABLE OF CONTENTS

REVOLVING CREDIT AGREEMENT dated as of June 30, 1998, among THE WASHINGTON WATER POWER COMPANY, a Washington corporation (herein called the "Borrower"), the banks listed in Schedule 2.01 (the "Banks"), TORONTO DOMINION (TEXAS), INC., as agent for the Banks (in such capacity, the "Agent"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as syndication agent (the "Syndication Agent") and THE BANK OF NEW YORK, as documentation agent (the "Documentation Agent").

The Borrower has requested that the Banks extend credit to the Borrower in order to enable the Borrower to borrow on a standby revolving credit basis on and after the date hereof, at any time prior to the Expiration Date (as herein defined) a principal amount not in excess of $75,000,000 at any time outstanding. The proceeds of such borrowings are to be used for general corporate purposes. In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or

indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Agency Fees" shall have the meaning assigned to such term in Section 2.06(c).

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) equal to the greater of (a) the Prime Rate (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) in effect on such day and (b) the sum of (i) the Federal Funds Effective Rate in effect for such day plus (ii) 1/2 of 1%. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist.

"Applicable Percentage" shall mean, with respect to any Bank, the percentage of the total Commitments represented by such Bank's Commitment. If the Commitments have terminated or expired, the Applicable Percentage shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" shall mean on any date, with respect to any ABR Loan or Eurodollar Revolving Loan, or with respect to the Commitment Fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread," "Eurodollar Spread" or "Commitment Fee", as the case may be, based upon the Ratings:

Ratings	ABR Spread	Eurodollar Spread	Commitment Fee
Level 1 A- or higher by S&P; and A3 or higher by Moody's	0.00%	.25%	.09%
Level 2 BBB+ by S&P; and Baa1 by Moody's	0.00%	.375%	.15%
Level 3 BBB by S&P; and Baa2 by Moody's	0.00%	.45%	.20%
Level 4 BBB- by S&P; and Baa3 by Moody's	.50%	.625%	.25%
Level 5 Lower than BBB- by S&P; and lower than Baa3 by Moody's	.50%	1.00%	.375%

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Rate shall be determined on such date by reference to the superior (numerically lower) Level, unless the Ratings differ by more than one Level, in which case the applicable Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because

such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 5; and (iii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non- availability of ratings from such rating agency.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Bank and an assignee, and accepted by the Agent and the Borrower, in the form of Exhibit B or such other form as shall be approved by the Agent.

"Auction Bid" shall mean an offer by a Bank to make an Auction Loan in accordance with Section 2.04.

"Auction Bid Rate" shall mean, with respect to any Auction Bid, the Margin for Eurodollar Auction Loans, the Fixed Rate for Fixed Rate Loans or the Delayed Fixed Rate for Delayed Fixed Rate Loans, as applicable, offered by the Bank in making such Auction Bid.

"Auction Bid Request" shall mean a request by the Borrower for Auction Bids in accordance with Section 2.04.

"Auction Facility" shall mean the facility described in Section 2.04.

"Auction Loan" shall mean a Loan made pursuant to Section 2.04.

"Availability Period" shall mean the period from

and including the Effective Date to but excluding the earlier of the Expiration Date and the date of the termination of the Commitments.

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

"Borrowing" shall mean (a) a group of Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect or (b) an Auction Loan or group of Auction Loans of the same Type made on the same date and as to which a single Interest Period is in effect.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York) on which banks are open for business in New York City.

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

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans or Auction Loans.

"Closing Date" shall mean the date of this Agreement.

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

"Commitment" shall mean, with respect to each Bank, the commitment of such Bank to make Revolving Loans hereunder as set forth in Section 2.01, as the same may be reduced from time to time pursuant to Section 2.10.

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

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

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

"Delayed Fixed Rate" shall mean, with respect to any Auction Loan (other than a Eurodollar Auction Loan or a Fixed Rate Loan), the fixed rate of interest per annum specified by the Bank in making such Auction Loan in its related Auction Bid.

"Delayed Fixed Rate Loan" shall mean an Auction Loan bearing interest at a Delayed Fixed Rate for which an Auction Bid Request is made two Business Days before the proposed date of borrowing.

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

"Environmental Law" shall mean any and all applicable present and future treaties, laws, regulations, enforceable requirements, binding determinations, orders, decrees, judgments, injunctions, permits, approvals, authorizations, licenses, permissions, notices or binding agreements issued, promulgated or entered by any Governmental Authority, relating to the environment, preservation or reclamation of natural resources, or to the management, release or threatened release of contaminants or noxious odor, including the Hazardous Materials Transportation Act, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, Clean Air Act of

1970, as amended, Toxic Substances Control Act of 1976, Occupational Safety and Health Act of 1970, as amended, Emergency Planning and Community Right-to-Know Act of 1986, Safe Drinking Water Act of 1974, as amended, and any similar or implementing state law, and all amendments or regulations promulgated thereunder.

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

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

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

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

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

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the product of (i) the arithmetic average of rates at which dollar deposits approximately equal to the principal amount of the portion of such Eurodollar Loan to be made by The Toronto-Dominion Bank, and for a maturity equal to the applicable Interest Period, are offered to The Toronto-Dominion Bank for Eurodollars at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period and (ii) Statutory Reserves. In the event that such rate is not available at such time for any reason, then the "Eurodollar Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the

Agent in immediately available funds in the London interbank market at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period.

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

"Expiration Date" shall mean the day that is 364 days after the date of this Agreement.

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

"Fees" shall mean the Commitment Fee and the Agency Fees.

"$50,000,000 Credit Facility" shall mean the $50,000,000 Amended and Restated Revolving Credit Agreement among the Washington Water Power Company, the banks named therein, and Toronto Dominion (Texas), Inc., dated as of July 22, 1997.

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

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

"Fixed Rate" shall mean, with respect to any Auction Loan (other than a Eurodollar Auction Loan or a Delayed Fixed Rate Loan), the fixed rate of interest per annum specified by the Bank making such Auction Loan in its

related Auction Bid.

"Fixed Rate Loan" shall mean an Auction Loan bearing interest at a Fixed Rate for which an Auction Bid Request is made on the day of the proposed borrowing.

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

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

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

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person, (e) all obligations of such person issued or assumed as the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for

which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed, but limited, if such obligations are without recourse to such person, to the lesser of the principal amount of such Indebtedness or the fair market value of such property, (g) all Guarantees by such person of Indebtedness of others, (h) all Capital Lease Obligations of such person, (i) all obligations of such person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the amount that would be payable upon the acceleration, termination or liquidation thereof) and (j) all obligations of such person as an account party in respect of letters of credit and bankers' acceptances. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner.

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

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect, (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Expiration Date, and (iii) the date such Borrowing shall be repaid or prepaid in accordance with Section 2.11 and (c) with respect to any Fixed Rate Borrowing or Delayed Fixed Rate Borrowing, the period (which shall not be less than 7 days or more than 360 days) commencing on the date of such Borrowing and ending on the date specified in the

applicable Auction Bid Request; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

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

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

"Loan Documents" shall mean this Agreement and the Notes.

"Margin" shall mean, with respect to any Auction Loan bearing interest at a rate based on the Eurodollar Rate, the marginal rate of interest, if any, to be added to or subtracted from the Eurodollar Rate to determine the rate of interest applicable to such Loan, as specified by the Bank making such Loan in its related Auction Bid.

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

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

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

"Notes" shall mean promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans.

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

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

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

"Prime Rate" shall mean the rate of interest per annum adopted from time to time by The Toronto-Dominion Bank at its principal office in New York City as its prime rate. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is adopted.

"Ratings" shall refer to the ratings of Moody's and S&P applicable to the Borrower's senior secured long-term debt obligations.

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

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

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

"Regulation X" shall mean Regulation X of the Board as from time to time in effect and all official

rulings and interpretations thereunder or thereof.

"Related Parties" shall mean, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

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

"Required Banks" shall mean, at any time, Banks having Revolving Exposures representing at least 66-2/3% of the aggregate Revolving Exposures or, if there shall be no Revolving Credit Exposure, Banks having Commitments representing at least 66-2/3% of the aggregate Commitments. For purposes of declaring the Loans to be due and payable pursuant to Article VII, and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Auction Loans of the Banks shall be included in their respective Revolving Credit Exposure in determining the Required Banks.

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

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

"Revolving Loan" shall mean a Loan made pursuant to Section 2.03.

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

"$70,000,000 Credit Facility" shall mean the

$70,000,000 Revolving Credit Agreement among The Washington Water Power Company, the banks named therein and Seattle First National Bank, dated as of December 12, 1992.

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

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

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

"Subsidiary" shall mean a subsidiary of the Borrower.

A "Subsidiary Event" shall mean the following; provided, however, that a Subsidiary Event shall not be deemed to have occurred if the Banks have previously consented thereto:

(a) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Section 5.01(a) as if such section applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary;

(b) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement in Sections 5.01(b), 5.02, 5.03 or 5.07 as if such sections applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary, and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Bank to the Borrower;

(c) any Significant Subsidiary shall:

(i) merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or

otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of such Significant Subsidiary's business, except that if, at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing, then (A) such Significant Subsidiary may (i) merge with or into, or consolidate with, any Subsidiary or (ii) merge with or into, or consolidate with, the Borrower in a transaction in which the Borrower is the surviving corporation, (B) such Significant Subsidiary may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (C) such Significant Subsidiary may merge with or into, or consolidate with, any other person so long as the assets of such person at the time of such consolidation or merger, do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (D) such Significant Subsidiary may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as the assets being purchased, leased or acquired (or the Significant Subsidiary's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied, or

(ii) sell, lease, transfer, assign or other

wise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or dispositions by the Borrower permitted under Section 6.03 (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (i) through (iv) of such Section), are in excess of 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (A) a Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, in any fiscal year, assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or dispositions in the ordinary course permitted under Section 6.03(i), do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (B) to the extent permitted in clause (c)(i) above and (C) any Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein;

provided, however, that, notwithstanding anything in this clause (c) to the contrary, a Subsidiary Event shall not be deemed to have occurred and shall not constitute an Event of Default under paragraph (k) of Article VII if, after giving effect to the consummation of any transaction contemplated by clause (c)(i) or (c)(ii) hereof, such Significant Subsidiary shall have or shall be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

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

"Type", when used in respect of any Loan or Borrowing, shall refer to the Rate by reference to which interest on such Loan or on the Loans comprising such

Borrowing is determined. For purposes hereof, "Rate" shall mean, in the case of a Revolving Loan or Borrowing, the Eurodollar Rate and the Alternate Base Rate or, in the case of an Auction Loan or Borrowing, the Eurodollar Rate, Fixed Rate or Delayed Fixed Rate.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that, for purposes of determining compliance with any covenant set forth in Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.05.

ARTICLE II. THE CREDITS

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make Revolving Loans to the Borrower, at any time and from time to time on or after the date of this Agreement, and until the earlier of the Expiration Date and the termination of the Commitment of such Bank in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (a) the Revolving Credit Exposure of any Bank exceeding the Commitment set forth opposite its name in Schedule 2.01 hereto, as the same may be reduced from time to time pursuant to Section 2.10 or (b) the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans exceeding the total

Commitments.

Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Revolving Loans on or after the date of this Agreement and prior to the Expiration Date, subject to the terms, conditions and limitations set forth herein.

SECTION 2.02. Loans. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Banks ratably in accordance with their Commitments. Each Auction Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Bank to make any Loan required to be made hereunder shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Loan required to be made by such other Bank). The Loans comprising each Borrowing shall be in an aggregate principal amount which is an integral multiple of $1,000,000.

(b) Subject to Section 2.09, (i) each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03, and (ii) each Auction Borrowing shall be comprised entirely of Eurodollar Loans, Fixed Rate Loans or Delayed Fixed Rate Loans as the Borrower may request in accordance with Section 2.04. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and the applicable Note. Borrowings of more than one Type or Class may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to paragraph (e) below, each Bank shall make a Revolving Loan in the amount of its pro rata

portion, as determined under Section 2.15, or, if an Auction Loan, in the relevant amount as determined under Section 2.04, of each Borrowing hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Houston, Texas, not later than 2:00 p.m., New York City time, and the Agent shall by 3:00 p.m., New York City time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Seattle First National Bank, Account Number 13972-203; ABA # 12500002-4, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

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

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type or Class, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or

part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.05 or 2.11, as applicable, with the proceeds of a new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

SECTION 2.03. Notice of Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) (a) in the case of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, the day of a proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing prior to the end of the Interest Period in effect for such Borrowing, then the Borrower shall (unless such Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

SECTION 2.04. Auction Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Auction Bids and may (but shall not have any

obligation to) accept Auction Bids and borrow Auction Loans; provided that the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans at any time shall not exceed the total Commitments. To request Auction Bids, the Borrower shall notify the Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 1:00 p.m., New York City time, four Business Days before the date of the proposed Borrowing, in the case of a Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business Day before the date of the proposed Borrowing, or, in the case of a Delayed Fixed Rate Borrowing, not later than 2:00 p.m., New York City time, two Business Days before the date for the proposed Borrowing; provided that the Borrower may submit up to (but not more than) (i) 1 Eurodollar Auction Bid Request and (ii) 1 Fixed Rate Auction Bid Request or 1 Delayed Fixed Rate Auction Bid Request on the same day. Each such telephonic Auction Bid Request shall be confirmed promptly by hand delivery or telecopy to the Agent of a written Auction Bid Request in a form approved by the Agent and signed by the Borrower. Each such telephonic and written Auction Bid Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be a Eurodollar Borrowing, a Fixed Rate Borrowing, or a Delayed Fixed Rate Borrowing;

(iv) the Interest Period (or Interest Periods) to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.02.

(b) Following receipt of an Auction Bid Request in accordance with this Section, the Agent shall notify the Banks of the details thereof by telecopy,

inviting the Banks to submit Auction Bids in the case of a Eurodollar Auction Bid Request, no later than 2:00 p.m., New York City time, four Business Days before the proposed date of the Borrowing, in the case of a Fixed Rate Auction Bid Request, no later than 2:00 p.m., one Business Day before the proposed date of the Borrowing, and, in the case of a Delayed Fixed Rate Bid Request, not later than 3:00 p.m., New York City time, two Business Days before the proposed date of the Borrowing.

(c) Each Bank may (but shall not have any obligation to) make one or more Auction Bids to the Borrower in response to an Auction Bid Request. Each Auction Bid by a Bank must be in a form approved by the Agent and must be received by the Agent by telecopy, in the case of a Eurodollar Auction Borrowing, not later than 12:00 (noon), New York City time, three Business Days before the proposed date of such Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of such Auction Borrowing, and, in the case of a Delayed Fixed Rate Bid, not later than 12:00 (noon), New York City time, one Business Day before the proposed date of such Auction Borrowing. Auction Bids that do not conform substantially to the form approved by the Agent may be rejected by the Agent, and the Agent shall notify the applicable Bank as promptly as practicable. Each Auction Bid shall specify (i) the principal amount (which shall be an integral multiple of $1,000,000 and which may equal the entire principal amount of the Auction Borrowing requested by the Borrower) of the Auction Loan or Loans that the Bank is willing to make, (ii) the Auction Bid Rate or Rates at which the Bank is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof in accordance with the Auction Bid Request.

(d) The Agent shall promptly notify the Borrower by telecopy of the Auction Bid Rate and the principal amount specified in each Auction Bid and the identity of the Bank that shall have made such Auction Bid.

(e) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Auction Bid. The Borrower shall notify the Agent by telephone,

confirmed by telecopy in a form approved by the Agent, whether and to what extent it has decided to accept or reject each Auction Bid, in the case of a Eurodollar Auction Borrowing, not later than 2:00 p.m., New York City time, three Business Days before the date of the proposed Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 11:30 a.m., New York City time, on the proposed date of the Auction Borrowing, and, in the case of a Delayed Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business day before the date of the proposed Auction Borrowing; provided that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Auction Bid, (ii) the Borrower shall not accept an Auction Bid made at a particular Auction Bid Rate if the Borrower rejects an Auction Bid made at a lower Auction Bid Rate, (iii) the aggregate amount of the Auction Bids accepted by the Borrower shall not exceed the aggregate amount of the requested Auction Borrowing specified in the related Auction Bid Request, (iv) to the extent necessary to comply with clause (iii) above, the Borrower may accept Auction Bids at the same Auction Bid Rate in part, which acceptance, in the case of multiple Auction Bids at such Auction Bid Rate, shall be made pro rata in accordance with the amount of each such Auction Bid, and (v) except pursuant to clause (iv) above, no Auction Bid shall be accepted for an Auction Loan unless such Auction Loan is in an integral multiple of $1,000,000. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(f) The Agent shall notify each bidding Bank by telephone and telecopy whether or not its Auction Bid has been accepted (and, if so, the amount and Auction Bid Rate so accepted) in the case of Eurodollar Auction Loans, by 3:00 p.m., New York City time, three Business Days before the borrowing date, in the case of Fixed Rate Loans, by 12:00 (noon), New York City time, on the borrowing date, and, in the case of Delayed Fixed Rate Loans, by 3:00 p.m., New York City time, one Business Day before the Borrowing Date. Each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Auction Loan in respect of which its Auction Bid has been accepted.

(g) If the Agent shall elect to submit an Auction Bid in its capacity as a Bank, it shall submit such

Auction Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Banks are required to submit their Auction Bids to the Agent pursuant to paragraph (b) of this Section.

SECTION 2.05. Notes; Repayment of Loans. The Loans made by each Bank shall be evidenced by a Note, duly executed on behalf of the Borrower, dated the date of this Agreement, in substantially the form attached hereto as Exhibit A, with the blanks appropriately filled, payable to the order of such Bank in a principal amount equal to such Bank's Commitment. The outstanding principal balance of each Revolving Loan and Auction Loan, as evidenced by such a Note, shall be payable on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Note shall bear interest from the date of the first borrowing hereunder on the outstanding principal balance thereof as set forth in Section 2.07. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to each Note delivered to such Bank (or on a continuation of such schedule attached to such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Loan from such Bank, each payment and prepayment of principal of any such Loan, each payment of interest on any such Loan and the other information provided for on such schedule; provided, however, that any such recordation shall be conclusive absent manifest error and the failure of any Bank to make such a notation or any error therein shall not affect the obligation of the Borrower to repay the Loans made by such Bank in accordance with the terms of this Agreement and the applicable Notes.

SECTION 2.06. Fees. (a) The Borrower agrees to pay to each Bank, through the Agent, on the first Business Day of January, April, July and October, in each year, and on the date on which the Commitment of such Bank shall be terminated as provided herein, a commitment fee (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be terminated); provided, that, for purposes of determining the Commitment Fee, the undrawn portion of the Commitments shall not be deemed to be reduced by the amount of any borrowing under the Auction

Facility. The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Rate in effect on such day. All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as appropriate. The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided herein.

(b) The Borrower agrees to pay to the Agent, for its own account, the fees set forth in the engagement letter dated May 12, 1998, between the Agent and the Borrower, at the times set forth therein (the "Agency Fees" and the "Structuring Fee").

(c) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.07. Interest on Loans. (a) Subject to the provisions of Section 2.08, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Subject to the provisions of Section 2.08, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) (i) in the case of a Eurodollar Revolving Loan at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate or (ii) in the case of a Eurodollar Auction Loan, at the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Margin applicable to such Loan.

(c) Each Fixed Rate Loan shall bear interest at the Fixed Rate applicable to such Loan. Each Delayed Fixed Rate Loan shall bear interest at the Delayed Fixed Rate applicable to such Loan.

(d) Interest on each Loan shall be payable on

the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.08. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Alternate Base Rate plus the Applicable Rate plus 2%.

SECTION 2.09. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Banks. In the event of any such determination, (i) any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing and (ii) any request by the Borrower for a Eurodollar Auction Borrowing shall be ineffective; provided that (A) if the circumstances giving rise to such notice do not affect all the Banks, then requests by Borrower for Eurodollar Auction Borrowings may be made to Banks that are not affected thereby and (B) if the circumstances giving rise to such notice affect only one Type of Borrowings,

then the other Type of Borrowings shall be permitted. Each determination by the Agent hereunder shall be conclusive absent manifest error.

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

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an integral multiple of $1,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans would exceed the total Commitments.

(c) Each reduction in the Commitments hereunder shall be made ratably among the Banks in accordance with their respective applicable Commitments. The Borrower shall pay to the Agent for the account of the Banks, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction.

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

SECTION 2.11. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of $1,000,000, and that the Borrower shall not have the right to prepay any Auction Loan without the prior consent of the Bank thereof.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.10, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Revolving Credit Exposure plus the aggregate principal amount of Auction Loans outstanding will not exceed the aggregate Commitments after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.11 shall be subject to Section 2.14 but otherwise without premium or penalty. All prepayments under this Section 2.11 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

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

(b) If any Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement or the Loans made by such Bank pursuant hereto to a level below that which such Bank or such Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

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

(d) Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to each Bank regardless

of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

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

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

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

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

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

SECTION 2.14. Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any

failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to refinance any Eurodollar Loan hereunder after irrevocable notice of such borrowing or refinancing has been given pursuant to Sections 2.03 and 2.04, (c) any payment or prepayment of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto or (d) any default in payment or prepayment of the principal amount of any Eurodollar Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by such Bank, of (i) its cost of obtaining the funds for the Eurodollar Loan being paid, prepaid, converted or not borrowed (assumed to be the Eurodollar Rate applicable thereto) for the period from the date of such payment, prepayment, conversion or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid or not borrowed for such period or Interest Period, as the case may be. A certificate of any Bank setting forth any amount or amounts which such Bank is entitled to receive pursuant to this Section, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.15. Pro Rata Treatment. Except as required under Sections 2.04 and 2.13, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Commitments and each refinancing of any Borrowing with a Borrowing of any Type shall be allocated pro rata among the Banks in accordance

with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole dollar amount.

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

setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Bank by reason thereof as fully as if such Bank had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.17. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in dollars to the Agent at its offices at 909 Fanning, Suite 1700, Houston, Texas, in immediately available funds.

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

SECTION 2.18. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.17, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Agent or any Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent or any Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Agent or any such Bank (or such Transferee) or the applicable lending office, is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.18) such Bank (or such Transferee) or the Agent (as the case may be) shall receive an amount equal to the

sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to receive with respect to the rights assigned, participated or other wise transferred unless such assignment, participation or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist.

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

(c) The Borrower will indemnify each Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or such Transferee)or the Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under

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

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

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

(f) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Agent shall notify the Borrower of each Bank's (or Transferee's) address. On or prior to the Bank's (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, deliver to the Borrower and the Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any

subsequent version thereof or successors thereto, properly completed and duly executed by such Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under the Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

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

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

(b) In the event that any Bank shall have delivered a notice or certificate pursuant to Section 2.12

or 2.13, or the Borrower shall be required to make additional payments under Section 2.18 to any Bank (or Transferee) or to the Agent with respect to any Bank (or Transferee), the Borrower shall have the right, at its own expense, upon notice to such Bank (or Transferee) and the Agent (a) to terminate the Commitment of such Bank (or Transferee) or (b) to require such Bank (or Transferee) to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all its interests, rights and obligations under this Agreement (other than any outstanding Auction Loans) to another financial institution which shall assume such obligations; provided that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the Borrower or the assignee, as the case may be, shall pay to the affected Bank (or Transferee) in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

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

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

SECTION 3.02. Authorization. The execution, delivery and performance by the Borrower of each of the

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

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

SECTION 3.04. Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or

will be required in connection with the Transactions, except such as have been made or obtained and are in full force and effect.

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 1997, audited by and accompanied by the opinion of Deloitte & Touche, independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, reflect all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof which are material on a consolidated basis. Such financial statements were prepared in accordance with GAAP applied (except as noted therein) on a consistent basis.

SECTION 3.06. No Material Adverse Change. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1998, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 1997, which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

SECTION 3.07. Litigation; Compliance with Laws. (a) Except as set forth in the Annual Report of the Borrower on Form 10-K for the year ended December 31, 1997, or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

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

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

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

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

SECTION 3.10. Use of Proceeds. The Borrower will use the proceeds of the Loans only for the purposes specified in the preamble to this Agreement.

SECTION 3.11. No Material Misstatements. No information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or, when considered together with all reports theretofore filed with the Securities and Exchange Commission, omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are

or will be made, not misleading.

SECTION 3.12. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than $10,000,000 the value of the assets of such Plan.

SECTION 3.13. Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and warranties set forth in this Section 3.13 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual

Report on Form 10-K for the fiscal year ended December 31, 1997 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1998; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 or the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1998) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

SECTION 3.14. Significant Subsidiaries. Schedule 3.14 sets forth as of the date hereof a list of all Significant Subsidiaries of the Borrower and the percentage ownership interest of the Borrower therein.

SECTION 3.15. Year 2000 Compliance. The Borrower and each Significant Subsidiary has a) initiated a review and assessment of all areas within its and each of its Significant Subsidiaries' business and operations (including those mission critical suppliers and vendors) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower or any of its Significant Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999) and (b) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and, as of the date of this Agreement, is implementing that plan in accordance with that timetable. The Borrower and each Significant Subsidiary reasonably believes that all computer applications that are material to its or any of its Significant Subsidiaries' business and operations will on a timely basis be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (that is, be "Year 2000 Compliant"), except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

ARTICLE IV. CONDITIONS OF LENDING

The obligations of the Banks to make Loans hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. All Borrowings. On the date of

each Borrowing, including each Borrowing in which Loans are refinanced with new Loans as contemplated by Section 2.02(e):

(a) The Agent shall have received a notice of such Borrowing as required by Section 2.03.

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

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

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

SECTION 4.02. First Borrowing. On the date of this Agreement:

(a) Each Bank shall have received a duly executed Note complying with the provisions of Section 2.05.

(b) The Agent shall have received favorable written opinions of (i) Paine, Hamblen, Coffin, Brooke & Miller, general counsel for the Borrower, and (ii) Reid & Priest, special counsel to the Borrower, each dated the date of this Agreement and addressed to the Banks, to the effect set forth in Exhibits D-1 and D-2 hereto, and the Borrower hereby instructs such counsel to deliver such opinions to the Agent.

(c) The Agent shall have received evidence satisfactory to it and set forth on Schedule 4.02(c) that the Borrower shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions, in each case without the imposition of any condition which, in the judgment of the Banks, could adversely affect their rights or interests hereunder.

(d) All legal matters incident to this Agreement and the borrowings hereunder shall be satisfactory to the Banks and their counsel and to Cravath, Swaine & Moore, counsel for the Agent.

(e) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such

other documents as the Banks or their counsel or Cravath, Swaine & Moore, counsel for the Agent, may reasonably request.

(f) The Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(g) The Agent shall have received evidence satisfactory to it that confirms the cancelation of the $50,000,000 and $70,000,000 Credit Facilities.

(h) The Agent shall have received all Fees and other amounts due and payable on or prior to the date of this Agreement.

ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank that so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses or any amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in writing, the Borrower will:

SECTION 5.01. Existence; Businesses and Properties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.02.

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names utilized in the conduct of the Borrower's business except where the failure so to obtain, preserve, renew, extend or maintain any of the foregoing would not result in a Material Adverse Effect; maintain and operate such business in substantially the manner in which it is presently conducted and operated, except as otherwise expressly permitted under this Agreement; comply in all material respects with all applicable laws, rules,

regulations and orders of any Governmental Authority, whether now in effect or hereafter enacted if failure to comply with such requirements would result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; provided, however, that the Borrower may cause the discontinuance of the operation or a reduction in the capacity of any of its facilities, or any element or unit thereof including, without limitation, real and personal properties, facilities, machinery and equipment, (i) if, in the judgment of the Borrower, it is no longer advisable to operate the same, or to operate the same at its former capacity, and such discontinuance or reduction would not result in a Material Adverse Effect, or (ii) if the Borrower intends to sell and dispose of its interest in the same in accordance with the terms of this Agreement and within a reasonable time shall endeavor to effectuate the same.

SECTION 5.02. Insurance. (a) Maintain insurance, to such extent and against such risks, as is customary with companies in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and (b) maintain such other insurance as may be required by law. All insurance required by this Section 5.02 shall be maintained with financially sound and reputable insurers or through self-insurance; provided, however, that the portion of such insurance constituting self-insurance shall be comparable to that usually maintained by companies engaged in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and the reserves maintained with respect to such self-insured amounts are deemed adequate by the officer or officers of the Borrower responsible for insurance matters.

SECTION 5.03. Taxes and Obligations. Pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or

otherwise which, if unpaid, might give rise to a Lien upon such properties or any part thereof; provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and the Borrower shall, to the extent required by GAAP, have set aside on its books adequate reserves with respect thereto.

SECTION 5.04. Financial Statements, Reports, etc. Furnish to the Agent and each Bank:

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

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

(c) concurrently with any delivery of financial statements under (a) or (b) above, a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

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

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

SECTION 5.05. Litigation and Other Notices. Furnish to the Agent and each Bank prompt written notice of the following:

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

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

result in a Material Adverse Effect; and

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

SECTION 5.06. ERISA. (a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to the Agent and each Bank (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding $10,000,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) or to appoint a trustee to administer any Plan or Plans and (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Bank to visit and inspect the financial records and the properties of the Borrower at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Bank to discuss the affairs, finances and condition of the Borrower with the chief financial officer of the Borrower, or other person designated by the chief financial officer, and independent

accountants therefor.

SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans only for the purposes set forth in the preamble to this Agreement.

ARTICLE VI. NEGATIVE COVENANTS

The Borrower covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses or amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in writing, the Borrower will not:

SECTION 6.01. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments; (b) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition and (ii) such Lien does not apply to any other property or assets of the Borrower;

(c) the Lien of the First Mortgage;

(d) Liens permitted under the First Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage) and any other Liens to which the Lien of the First Mortgage is expressly made subject;

(e) the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower; provided that, so long as the First Mortgage shall constitute a Lien on properties or assets of the Borrower, the bonds, notes or other obligations issued under the Collateral Trust Mortgage (i) shall also be secured by an equal principal amount of bonds issued under the First Mortgage or (ii) shall be issued against property additions not subject to the Lien of the First Mortgage;

(f) Liens permitted under the Collateral Trust Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the Collateral Trust Mortgage) and any other Liens to which the Lien of the Collateral Trust Mortgage is subject;

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

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

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

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

(k) zoning restrictions, easements, rights-of-

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

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

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

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

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

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

(q) any obligations or duties, affecting the

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

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

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

(t) banker's Liens and other Liens in the nature of a right of set-off;

(u) Liens resulting from any transaction permitted under Section 6.03(iv);

(v) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property (it being understood that such limitation does not apply to the Liens described in subsection (c), (e) or (u) above);

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

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

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

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

(aa) cash collateral contemplated under Section 2.06(i) of the $125,000,000 Revolving Credit Facility dated as of the date hereof between The Washington Water Power Company, Toronto-Dominion (Texas), Inc., and the banks named therein; and

(ab) Liens not expressly permitted in clauses (a) through (aa) of this Section 6.01 to secure Indebtedness of the Borrower, provided that the aggregate outstanding principal amount of the Indebtedness so secured does not at any one time exceed 5% of the total assets of the Borrower and its Subsidiaries, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.02. Mergers, Consolidations and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's business, except that if (A) at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and (B) in the case of any merger or consolidation involving the Borrower in which the Borrower is not the surviving corporation, the surviving corporation shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, then (a) the Borrower may merge or consolidate with any Subsidiary in a transaction in which the Borrower is the surviving corporation, (b) the Borrower may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the

case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation, or in the case of a merger or consolidation in which the Borrower is not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baa1 or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.03. Disposition of Assets. Sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or other dispositions permitted under clause (c)(ii) of the definition of Subsidiary Event in Article I (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (c)(ii) (A) through (C) in such definition), exceed 10% of the assets of the Borrower and its Subsidiaries as

of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (i) the Borrower may, in any fiscal year, sell, lease, transfer, assign or otherwise dispose of assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or other dispositions in the ordinary course permitted under clause (c)(ii)(A) of the definition of Subsidiary Event in Article I, do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (ii) to the extent permitted under Section 5.03, 6.01 or Section 6.02, (iii) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interests in the Colstrip and Centralia Projects and related assets and (v) the Borrower may sell, lease, transfer, assign or otherwise dispose (including by way of capital contribution) of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein.

ARTICLE VII. EVENTS OF DEFAULT

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

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any

principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

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

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

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

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

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court

of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary; and such proceeding or petition shall continue undismissed, or an order or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days;

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

(i) a final judgment or judgments shall be rendered against the Borrower, any Significant Subsidiary or any combination thereof for the payment of money with respect to which an aggregate amount in excess of $25,000,000 is not covered by insurance and the same shall remain undischarged for a period of

30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Significant Subsidiary to enforce any such judgment;

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

(k) there shall occur a Subsidiary Event;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Agent, at the request of the Required Banks, shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon (A) the Commitments will automatically be terminated and (B) the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid

accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Toronto Dominion (Texas), Inc. is hereby appointed to act as Agent on behalf of the Banks. Each of the Banks hereby irrevocably authorizes and directs the Agent to take such action on behalf of such Bank under the terms and provisions of this Agreement, and to exercise such powers hereunder as are specifically delegated to or required of the Agent by the terms and provisions hereof, together with such powers as are reasonably incidental thereto. The Agent is hereby expressly authorized on behalf of the Banks, without hereby limiting any implied authority, (a) to receive on behalf of each of the Banks any payment of principal of or interest on the Loans outstanding hereunder and all other amounts accrued hereunder paid to the Agent, and to distribute to each Bank its proper share of all payments so received as soon as practicable; (b) to give notice promptly on behalf of each of the Banks to the Borrower of any event of default specified in this Agreement of which the Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute promptly to each Bank copies of all notices, agreements and other material as provided for in this Agreement as received by such Agent.

Neither the Agent nor any of its directors,

officers, employees or agents shall be liable to any Bank as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instrument to which reference is made herein. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure or delay in performance or breach by any Bank of any of its obligations hereunder or to any Bank on account of the failure of or delay in performance or breach by any other Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or other affiliate thereof as if it were not the Agent.

Each Bank recognizes that applicable laws, rules, regulations or guidelines of governmental authorities may require the Agent to determine whether the transactions contemplated hereby should be classified as "highly leveraged" or assigned any similar or successor classification,

and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

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

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

The Agent may execute any of its duties under this Agreement by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or agent shall not release the Agent from its obligation to perform or cause to be performed the delegated duty.

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

ARTICLE IX. MISCELLANEOUS

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

(a) if to the Borrower, to it at East 1411 Mission Avenue (99202), P.O. Box 3727, Spokane, Washington 99220, Attention of the Senior Vice President, Chief Financial Officer and Treasurer (Telecopy No. 509-482-4879);

(b) if to the Agent, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951-9921); and

(c) if to a Bank, to it at its address (or

telecopy number) set forth in Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Bank shall have become a party hereto.

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

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

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the

successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

(b) Each Bank (including the Agent when acting as a Bank) may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment and the same portion of the applicable Loan or Loans at the time owing to it and the applicable Note or Notes held by it, other than any Auction Loans or Notes held by it, which may, but need not, be assigned); provided, however, that (i) except in the case of an assignment to a Bank or an Affiliate of such Bank, the Borrower and the Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.12, 2.13(a), 2.14 or 2.18 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, except that this clause (iii) shall not apply to rights in respect of outstanding Auction Loans, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than $5,000,000 (or, if less, the total amount of their Commitments), (v) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or Notes subject to such assignment and a processing and recordation fee of $5,000 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party

hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.14, 2.18 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such

documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

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

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note or Notes subject to such assignment, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered Note or Notes, a new Note or Notes to the order of such assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment, a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such

surrendered Note; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

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

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

to preserve the confidentiality of such confidential information.

(h) Any Bank may at any time assign for security purposes all or any portion of its rights under this Agreement and the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

(i) Subject to Section 6.02, the Borrower shall not assign or delegate any of its rights or duties hereunder.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or the Notes issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent, and, in connection with any such amendment, modification or waiver or any such enforcement or protection, the fees, charges and disbursements of any other internal or external counsel for the Agent or any Bank. The Borrower further agrees that it shall indemnify the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

(b) The Borrower agrees to indemnify the Agent and each Bank and each of their respective directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan

Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

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

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or bank Controlling such Bank) to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have. Any Bank shall provide the Borrower with written notice promptly after exercising its rights under this Section.

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

NEW YORK.

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

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each holder of a Note affected thereby, (ii) change or extend the Commitment or decrease the Commitment Fees of any Bank without the prior written consent of such Bank, or (iii) amend or modify the provisions of Section 2.15, the provisions of this Section or the definition of "Required Banks", without the prior written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent hereunder without the prior written consent of the Agent. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any

Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

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

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

SECTION 9.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

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

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

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

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

jurisdiction.

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

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

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

THE WASHINGTON WATER POWER COMPANY,

by

Name:
Title:

TORONTO DOMINION (TEXAS), INC., as Agent,

by

Name:
Title:

THE BANK OF NEW YORK,
as Documentation Agent,

by

   Name:
   Title:

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION,
as Syndication Agent,

by

   Name:
   Title:

TORONTO DOMINION (TEXAS), INC.,

by

   Name:
   Title:

THE BANK OF NEW YORK,

by

   Name:
   Title:

BANK OF AMERICA NATIONAL TRUST AND
SAVINGS ASSOCIATION,

by

   Name:
   Title:

FIRST SECURITY BANK OF IDAHO,

by

Name:
Title:

MELLON BANK, N.A.,

by

Name:
Title:

NATIONSBANK, N.A.,

by

Name:
Title:

U.S. BANK,

by

Name:
Title:

WACHOVIA BANK, N.A.

by

Name:
Title:

WELLS FARGO BANK,

by

Name:

Title:

EXHIBIT A

[FORM OF]

NOTE

$_____ [ ], 1998
New York, New York

FOR VALUE RECEIVED, the undersigned, THE WASHINGTON WATER POWER COMPANY, a Washington corporation (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of Toronto Dominion (Texas), Inc., (the "Agent"), at 909 Fanning, Suite 1700, Houston, Texas 77010, (i) on the last day of each Interest Period, as defined in the $75,000,000 Revolving Credit Agreement dated as of June 30, 1998 (the "Credit Agreement"), among the Borrower, the Banks named therein and the Agent, the aggregate unpaid principal amount of all Loans (as defined in the Credit Agreement) made to the Borrower by the Bank pursuant to the Credit Agreement to which such Interest Period applies and (ii) on the Expiration Date (as defined in the Credit Agreement) the lesser of the principal sum of _____ Dollars ($_____) and the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date hereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at the rate or rates per annum and payable on the dates provided in the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates provided in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates and maturity dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not affect the obligations of the Borrower under this Note.

This Note is one of the Notes referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

THE WASHINGTON WATER
POWER COMPANY

by

Name:
Title:

Loans and Payments

Date	Amount and Type/Class of Loan	Maturity Date	Payments Principal Interest	Unpaid Principal Balance of Note	Name of Person Making Notation

EXHIBIT B

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the $75,000,000 Credit Agreement dated as of June 30, 1998 (as in effect from time to time, the "Credit Agreement"), among The Washington Water Power Company, a Washington corporation (the "Borrower"), the banks listed on Schedule 2.01 thereto (the "Banks") and Toronto Dominion (Texas), Inc., as agent for the Banks (in such capacity, the "Agent"). Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Effective Date and Revolving Loans [and Auction Loans] owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Revolving Loans [and Auction Loans] to the Effective Date, and the amount, if any, set forth on the reverse hereof of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be

released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being delivered to the Agent together with (i) the Notes evidencing the Loans included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.18(f) of the Credit Agreement, duly completed and executed by such Assignee, (iii) if the Assignee is not already a Bank under the Credit Agreement, an Administrative Questionnaire in the form of Exhibit C to the Credit Agreement and (iv) a processing and recordation fee of $5,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment):

Facility	Principal Amount Assigned (and identifying information as to individual Auction Loans)	Percentage Assigned of Facility and Commitment Thereunder (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Banks thereunder)
Commitment Assigned:	$	%
Revolving Loans:	$	%
[Auction Loans:	$	%]
Fees Assigned (if any):	$	%

The terms set forth above and on the reverse side hereof are hereby agreed to:

, as Assignor

By:_____
Name:
Title:

_____, as Assignee

By:_____
Name:
Title:

Accepted:

TORONTO DOMINION (TEXAS), INC., as Agent

By:_____
Name:
Title:

THE WASHINGTON POWER COMPANY

By:_____
Name:
Title:

EXHIBIT C

Administrative Questionnaire

EXHIBIT D-1

Opinion of General Counsel for the Borrower

EXHIBIT D-2

Opinion of Special Counsel for the Borrower

SCHEDULE 2.01

Banks

Bank	Commitment
Toronto-Dominion (Texas), Inc. 909 Fanning Suite 1700 Houston, TX 77010 Attention: Ms. Kimberly Burleson Telecopy: (713)951-9921 With copies to: Toronto-Dominion Bank U.S.A. Division 31 West 52nd Street New York, NY 10019-6101 Attention: Mr. Peter Cody Telecopy: (212) 262-1929	$13,125,000
Bank of America National Trust and Savings Association 555 California Street 41st floor San Francisco, CA 94104 Attention: Mr. Lawrence Balingit Telecopy: (415) 622-0632	$13,125,000
First Security Bank of Idaho 119 North 9th Street (83702) Boise, ID 83730 Attention: Mr. Brian Cook Telecopy: (509) 353-2472	$3,750,000

Bank	Commitment
Mellon Bank, N.A. 400 South Hope Street 5th floor Los Angeles, CA 9071-2806 Attention: Mr. Scott Sommers Telecopy: (213) 629-0492 Copies to: Mellon Bank, N.A. 1 Mellon Bank Center 500 Grant Street (AIM# 151-4425) Pittsburgh, PA 15258-0001 Attention: Mr. Mark Rogers Telecopy: (412) 234-1813	$5,625,000
The Bank of New York One Wall Street New York, NY 10286 Attention: Mr. Timothy Lynch Telecopy: (212) 635-7923	$9,375,000
NationsBank, N.A. 901 Main Street 64th Floor P.O. Box 830104 Dallas, TX 75202 Attention: Mr. Curtis Anderson Telecopy: (214) 508-3943	$9,375,000
U.S. Bank 1420 Fifth Avenue 11th floor WWH276 Seattle, WA 98101 Attention: Mr. Wilfred C. Jack Telecopy: (206) 587-5259	$7,500,000

Bank	Commitment
Wachovia Bank, N.A. 191 Peachtree St. N.E. Atlanta, GA 30303 Attention: Mr. David Alexander Telecopy: (404) 332-6898	$5,625,000
Wells Fargo Bank W. 524 Riverside Avenue 6th floor Spokane, WA 00210-0085 Attention: Mr. Tom Beil Telecopy: (509) 455-5762	$7,500,000

SCHEDULE 3.14

Significant Subsidiaries

Name	Percent Ownership
Avista Corp.	100%
Pentzer Corporation	100%

SCHEDULE 4.02(c)

Orders of Governmental Authorities

1. Order(s) of the Washington Utilities and Transportation Commission.

2. Order(s) of the Oregon Public Utility Commission.

3. Order(s) of the Idaho Public Utilities Commission.

4. Order(s) of the California Public Utilities Commission.

EXHIBIT 4(d)-2
EXECUTION COPY

==========

REVOLVING CREDIT AGREEMENT

(3 YEAR)

among

THE WASHINGTON WATER POWER COMPANY,

THE BANKS NAMED HEREIN,

TORONTO DOMINION (TEXAS), INC.,

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

and

THE BANK OF NEW YORK

Dated as of June 30, 1998

==========

EXHIBIT 4(d)-2

TABLE OF CONTENTS

REVOLVING CREDIT AGREEMENT dated as of June 30, 1998, among THE WASHINGTON WATER POWER COMPANY, a Washington corporation (herein called the "Borrower"), the banks listed in Schedule 2.01 (the "Banks"), TORONTO DOMINION (TEXAS), INC., as agent for the Banks (in such capacity, the "Agent"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as syndication agent (the "Syndication Agent") and THE BANK OF NEW YORK, as documentation agent (the "Documentation Agent").

The Borrower has requested that the Banks extend credit to the Borrower in order to enable the Borrower to borrow on a standby revolving credit basis and obtain letters of credit on and after the date hereof, at any time prior to the Expiration Date (as herein defined) a principal amount not in excess of $125,000,000 at any time outstanding. The proceeds of such borrowings and such letters of credit are to be used for general corporate purposes. In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

"Affiliate" shall mean, when used with respect to

a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Agency Fees" shall have the meaning assigned to such term in Section 2.07(c).

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) equal to the greater of (a) the Prime Rate (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) in effect on such day and (b) the sum of (i) the Federal Funds Effective Rate in effect for such day plus (ii) 1/2 of 1%. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist.

"Applicable Percentage" shall mean, with respect to any Bank, the percentage of the total Commitments represented by such Bank's Commitment. If the Commitments have terminated or expired, the Applicable Percentage shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" shall mean on any date, with respect to any ABR Loan or Eurodollar Revolving Loan, or with respect to the Commitment Fees or the Letter of Credit fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread," "Eurodollar Spread," "Commitment Fee" or "Letter of Credit Participation Fees", as the case may be, based upon the Ratings:

Ratings	ABR Spread	Eurodollar Spread	Commitment Fee	Letter of Credit Participation Fees
Level 1 A- or higher by S&P; and A3 or higher by Moody's	0.00%	.25%	.09%	.25%
Level 2 BBB+ by S&P; and Baa1 by Moody's	0.00%	.375%	.15%	.375%
Level 3 BBB by S&P; and Baa2 by Moody's	0.00%	.45%	.20%	.45%
Level 4 BBB- by S&P; and Baa3 by Moody's	.50%	.625%	.25%	.625%
Level 5 Lower than BBB- by S&P; and lower than Baa3 by Moody's	.50%	1.00%	.375%	1.00%

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Rate shall be determined on such date by reference to the superior (numerically lower) Level, unless the Ratings differ by more than one Level, in which case the applicable

Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 5; and (iii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non- availability of ratings from such rating agency.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Bank and an assignee, and accepted by the Agent and the Borrower, in the form of Exhibit B or such other form as shall be approved by the Agent.

"Auction Bid" shall mean an offer by a Bank to make an Auction Loan in accordance with Section 2.04.

"Auction Bid Rate" shall mean, with respect to any Auction Bid, the Margin for Eurodollar Auction Loans, the Fixed Rate for Fixed Rate Loans or the Delayed Fixed Rate for Delayed Fixed Rate Loans, as applicable, offered by the Bank in making such Auction Bid.

"Auction Bid Request" shall mean a request by the Borrower for Auction Bids in accordance with Section 2.04.

"Auction Facility" shall mean the facility described in Section 2.04.

"Auction Loan" shall mean a Loan made pursuant to

Section 2.04.

"Availability Period" shall mean the period from and including the Effective Date to but excluding the earlier of the Expiration Date and the date of the termination of the Commitments.

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

"Borrowing" shall mean (a) a group of Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect or (b) an Auction Loan or group of Auction Loans of the same Type made on the same date and as to which a single Interest Period is in effect.

"Business Day" shall mean any day (other than a day which is a Saturday, Sunday or legal holiday in the State of New York) on which banks are open for business in New York City.

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

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans or Auction Loans.

"Closing Date" shall mean the date of this Agreement.

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

"Commitment" shall mean, with respect to each

Bank, the commitment of such Bank to make Revolving Loans and to acquire participations in Letters of Credit hereunder as set forth in Sections 2.01 and 2.06, as the same may be reduced from time to time pursuant to Section 2.11.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.07(a).

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

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

"Delayed Fixed Rate" shall mean, with respect to any Auction Loan (other than a Eurodollar Auction Loan or a Fixed Rate Loan), the fixed rate of interest per annum specified by the Bank in making such Auction Loan in its related Auction Bid.

"Delayed Fixed Rate Loan" shall mean an Auction Loan bearing interest at a Delayed Fixed Rate for which an Auction Bid Request is made two Business Days before the proposed date of borrowing.

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

"Environmental Law" shall mean any and all applicable present and future treaties, laws, regulations, enforceable requirements, binding determinations, orders, decrees, judgments, injunctions, permits, approvals, authorizations, licenses, permissions, notices or binding agreements issued, promulgated or entered by any Governmental Authority, relating to the environment, preservation or reclamation of natural resources, or to the management, release or threatened release of contaminants or noxious odor, including the Hazardous Materials Transportation Act, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the

Superfund Amendments and Reauthorization Act of 1986, Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, Clean Air Act of 1970, as amended, Toxic Substances Control Act of 1976, Occupational Safety and Health Act of 1970, as amended, Emergency Planning and Community Right-to-Know Act of 1986, Safe Drinking Water Act of 1974, as amended, and any similar or implementing state law, and all amendments or regulations promulgated thereunder.

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

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

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

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

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

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the product of (i) the arithmetic average of rates at which dollar deposits approximately equal to the principal amount of the portion of such Eurodollar Loan to be made by The Toronto-Dominion Bank, and for a maturity equal to the applicable Interest Period, are offered to The Toronto-Dominion Bank for Eurodollars at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period and (ii) Statutory Reserves. In the event that such rate is not available at

such time for any reason, then the "Eurodollar Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of $5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Agent in immediately available funds in the London interbank market at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period.

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

"Expiration Date" shall mean the third anniversary of the date of this Agreement.

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

"Fees" shall mean the Commitment Fee and the Agency Fees.

"$50,000,000 Credit Facility" shall mean the $50,000,000 Amended and Restated Revolving Credit Agreement among the Washington Water Power Company, the banks named therein, and Toronto Dominion (Texas), Inc., dated as of July 22, 1997.

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

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

"Fixed Rate" shall mean, with respect to any Auction Loan (other than a Eurodollar Auction Loan or a Delayed Fixed Rate Loan), the fixed rate of interest per annum specified by the Bank making such Auction Loan in its related Auction Bid.

"Fixed Rate Loan" shall mean an Auction Loan bearing interest at a Fixed Rate for which an Auction Bid Request is made on the day of the proposed borrowing.

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

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

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

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such person upon which interest charges are customarily paid, (d) all obligations of such person under conditional sale or other title retention agreements

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

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

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect, (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Expiration Date, and (iii) the date such Borrowing

shall be repaid or prepaid in accordance with Section 2.12 and (c) with respect to any Fixed Rate Borrowing or Delayed Fixed Rate Borrowing, the period (which shall not be less than 7 days or more than 360 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Auction Bid Request; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Issuing Bank" shall mean The Toronto-Dominion Bank in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

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

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

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

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

with respect to such securities.

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

"Loan Documents" shall mean this Agreement and the Notes and any Letter of Credit applications referred to in Section 2.06(a).

"Margin" shall mean, with respect to any Auction Loan bearing interest at a rate based on the Eurodollar Rate, the marginal rate of interest, if any, to be added to or subtracted from the Eurodollar Rate to determine the rate of interest applicable to such Loan, as specified by the Bank making such Loan in its related Auction Bid.

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

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

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

"Notes" shall mean promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans.

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

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

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

"Prime Rate" shall mean the rate of interest per annum adopted from time to time by The Toronto-Dominion Bank at its principal office in New York City as its prime rate. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is adopted.

"Ratings" shall refer to the ratings of Moody's and S&P applicable to the Borrower's senior secured long-term debt obligations.

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

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

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

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

"Related Parties" shall mean, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

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

"Required Banks" shall mean, at any time, Banks having Revolving Exposures representing at least 66-2/3% of the aggregate Revolving Exposures or, if there

shall be no Revolving Credit Exposure, Banks having Commitments representing at least 66-2/3% of the aggregate Commitments. For purposes of declaring the Loans to be due and payable pursuant to Article VII and of demanding the deposit of cash collateral pursuant to Section 2.06(i), and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Auction Loans of the Banks shall be included in their respective Revolving Credit Exposure in determining the Required Banks.

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

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

"Revolving Loan" shall mean a Loan made pursuant to Section 2.03.

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

"$70,000,000 Credit Facility" shall mean the $70,000,000 Revolving Credit Agreement among The Washington Water Power Company, the banks named therein and Seattle -First National Bank, dated as of December 12, 1992.

"Significant Subsidiary" shall mean a Subsidiary meeting any one of the following conditions: (a) the investments in and advances to such Subsidiary by the Borrower and the other Subsidiaries, if any, as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (b) the Borrower's and the other Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of such Subsidiary as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date,

computed and consolidated in accordance with GAAP; or (c) the equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of such Subsidiary for the period of four consecutive fiscal quarters ending at the end of the Borrower's latest fiscal quarter exceeded 10% of such income of the Borrower and its Subsidiaries for such period, computed and consolidated in accordance with GAAP; or (d) such Subsidiary is the parent of one or more Subsidiaries and, together with such Subsidiaries would, if considered in the aggregate, constitute a Significant Subsidiary.

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

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

"Subsidiary" shall mean a subsidiary of the Borrower.

A "Subsidiary Event" shall mean the following; provided, however, that a Subsidiary Event shall not be deemed to have occurred if the Banks have previously consented thereto:

(a) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Section 5.01(a) as if such section applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary;

(b) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement in Sections 5.01(b), 5.02, 5.03 or 5.07 as if such sections applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary, and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Bank to the Borrower; (c) any Significant Subsidiary shall:

(i) merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of such Significant Subsidiary's business, except that if, at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing, then (A) such Significant Subsidiary may (i) merge with or into, or consolidate with, any Subsidiary or (ii) merge with or into, or consolidate with, the Borrower in a transaction in which the Borrower is the surviving

corporation, (B) such Significant Subsidiary may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (C) such Significant Subsidiary may merge with or into, or consolidate with, any other person so long as the assets of such person at the time of such consolidation or merger, do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (D) such Significant Subsidiary may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as the assets being purchased, leased or acquired (or the Significant Subsidiary's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied, or

(ii) sell, lease, transfer, assign or other wise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or dispositions by the Borrower permitted under Section 6.03 (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (i) through (iv) of such Section), are in excess of 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (A) a Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, in any fiscal year, assets in the ordinary course of business which, together with the amount of all sales,

leases, transfers, assignments or dispositions in the ordinary course permitted under Section 6.03(i), do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (B) to the extent permitted in clause (c)(i) above and (C) any Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein;

provided, however, that, notwithstanding anything in this clause (c) to the contrary, a Subsidiary Event shall not be deemed to have occurred and shall not constitute an Event of Default under paragraph (k) of Article VII if, after giving effect to the consummation of any transaction contemplated by clause (c)(i) or (c)(ii) hereof, such Significant Subsidiary shall have or shall be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

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

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

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as

otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that, for purposes of determining compliance with any covenant set forth in Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.05.

ARTICLE II. THE CREDITS

SECTION 2.01. Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make Revolving Loans to the Borrower, at any time and from time to time on or after the date of this Agreement, and until the earlier of the Expiration Date and the termination of the Commitment of such Bank in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (a) the Revolving Credit Exposure of any Bank exceeding the Commitment set forth opposite its name in Schedule 2.01 hereto, as the same may be reduced from time to time pursuant to Section 2.11 or (b) the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans exceeding the total Commitments.

Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Revolving Loans on or after the date of this Agreement and prior to the Expiration Date, subject to the terms, conditions and limitations set forth herein.

SECTION 2.02. Loans. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Banks ratably in accordance with their Commitments. Each Auction Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Bank to make any Loan required to be made hereunder shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure

of any other Bank to make any Loan required to be made by such other Bank). The Loans comprising each Borrowing shall be in an aggregate principal amount which is an integral multiple of $1,000,000.

(b) Subject to Section 2.10, (i) each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03, and (ii) each Auction Borrowing shall be comprised entirely of Eurodollar Loans, Fixed Rate Loans or Delayed Fixed Rate Loans as the Borrower may request in accordance with Section 2.04. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and the applicable Note. Borrowings of more than one Type or Class may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to paragraph (e) below, each Bank shall make a Revolving Loan in the amount of its pro rata portion, as determined under Section 2.16, or, if an Auction Loan, in the relevant amount as determined under Section 2.04, of each Borrowing hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Houston, Texas, not later than 2:00 p.m., New York City time, and the Agent shall by 3:00 p.m., New York City time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Seattle First National Bank, Account Number 13972-203; ABA # 12500002-4, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make

available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

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

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type or Class, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.05 or 2.12, as applicable, with the proceeds of a new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

SECTION 2.03. Notice of Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) (a) in the case of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, the day of a

proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing prior to the end of the Interest Period in effect for such Borrowing, then the Borrower shall (unless such Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

SECTION 2.04. Auction Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Auction Bids and may (but shall not have any obligation to) accept Auction Bids and borrow Auction Loans; provided that the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans at any time shall not exceed the total Commitments. To request Auction Bids, the Borrower shall notify the Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 1:00 p.m., New York City time, four Business Days before the date of the proposed Borrowing, in the case of a Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business Day before the date of the proposed Borrowing, or, in the case of a Delayed Fixed Rate Borrowing, not later than 2:00 p.m., New York City time, two Business Days before the date for the proposed Borrowing; provided that the Borrower may submit up to (but not more than) (i) 1 Eurodollar Auction Bid Request and (ii) 1 Fixed Rate Auction Bid Request or 1 Delayed Fixed Rate Auction Bid Request on the same day.

Each such telephonic Auction Bid Request shall be confirmed promptly by hand delivery or telecopy to the Agent of a written Auction Bid Request in a form approved by the Agent and signed by the Borrower. Each such telephonic and written Auction Bid Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be a Eurodollar Borrowing, a Fixed Rate Borrowing, or a Delayed Fixed Rate Borrowing;

(iv) the Interest Period (or Interest Periods) to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.02.

(b) Following receipt of an Auction Bid Request in accordance with this Section, the Agent shall notify the Banks of the details thereof by telecopy, inviting the Banks to submit Auction Bids in the case of a Eurodollar Auction Bid Request, no later than 2:00 p.m., New York City time, four Business Days before the proposed date of the Borrowing, in the case of a Fixed Rate Auction Bid Request, no later than 2:00 p.m., one Business Day before the proposed date of the Borrowing, and, in the case of a Delayed Fixed Rate Bid Request, not later than 3:00 p.m., New York City time, two Business Days before the proposed date of the Borrowing.

(c) Each Bank may (but shall not have any obligation to) make one or more Auction Bids to the Borrower in response to an Auction Bid Request. Each Auction Bid by a Bank must be in a form approved by the Agent and must be received by the Agent by telephone, in the case of a Eurodollar Auction Borrowing, not later than 12:00 (noon), New York City time, three Business Days

before the proposed date of such Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of such Auction Borrowing, and, in the case of a Delayed Fixed Rate Bid, not later than 12:00 (noon), New York City time, one Business Day before the proposed date of such Auction Borrowing. Auction Bids that do not conform substantially to the form approved by the Agent may be rejected by the Agent, and the Agent shall notify the applicable Bank as promptly as practicable. Each Auction Bid shall specify (i) the principal amount (which shall be an integral multiple of $1,000,000 and which may equal the entire principal amount of the Auction Borrowing requested by the Borrower) of the Auction Loan or Loans that the Bank is willing to make, (ii) the Auction Bid Rate or Rates at which the Bank is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof in accordance with the Auction Bid Request.

(d) The Agent shall promptly notify the Borrower by telecopy of the Auction Bid Rate and the principal amount specified in each Auction Bid and the identity of the Bank that shall have made such Auction Bid.

(e) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Auction Bid. The Borrower shall notify the Agent by telephone, confirmed by telecopy in a form approved by the Agent, whether and to what extent it has decided to accept or reject each Auction Bid, in the case of a Eurodollar Auction Borrowing, not later than 2:00 p.m., New York City time, three Business Days before the date of the proposed Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 11:30 a.m., New York City time, on the proposed date of the Auction Borrowing, and, in the case of a Delayed Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business day before the date of the proposed Auction Borrowing; provided that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Auction Bid, (ii) the Borrower shall not accept an Auction Bid made at a particular Auction Bid Rate if the Borrower rejects an Auction Bid made at a lower Auction Bid Rate, (iii) the aggregate amount of the Auction Bids accepted by the Borrower shall not exceed the

aggregate amount of the requested Auction Borrowing specified in the related Auction Bid Request, (iv) to the extent necessary to comply with clause (iii) above, the Borrower may accept Auction Bids at the same Auction Bid Rate in part, which acceptance, in the case of multiple Auction Bids at such Auction Bid Rate, shall be made pro rata in accordance with the amount of each such Auction Bid, and (v) except pursuant to clause (iv) above, no Auction Bid shall be accepted for an Auction Loan unless such Auction Loan is in an integral multiple of $1,000,000. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(f) The Agent shall notify each bidding Bank by telephone and telecopy whether or not its Auction Bid has been accepted (and, if so, the amount and Auction Bid Rate so accepted) in the case of Eurodollar Auction Loans, by 3:00 p.m., New York City time, three Business Days before the borrowing date, in the case of Fixed Rate Loans, by 12:00 (noon), New York City time, on the borrowing date, and, in the case of Delayed Fixed Rate Loans, by 3:00 p.m., New York City time, one Business Day before the Borrowing Date. Each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Auction Loan in respect of which its Auction Bid has been accepted.

(g) If the Agent shall elect to submit an Auction Bid in its capacity as a Bank, it shall submit such Auction Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Banks are required to submit their Auction Bids to the Agent pursuant to paragraph (b) of this Section.

SECTION 2.05. Notes; Repayment of Loans. The Loans made by each Bank shall be evidenced by a Note, duly executed on behalf of the Borrower, dated the date of this Agreement, in substantially the form attached hereto as Exhibit A, with the blanks appropriately filled, payable to the order of such Bank in a principal amount equal to such Bank's Commitment. The outstanding principal balance of each Revolving Loan and Auction Loan, as evidenced by such a Note, shall be payable on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Note shall bear interest from the date of the first borrowing hereunder on the outstanding principal balance

thereof as set forth in Section 2.08. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to each Note delivered to such Bank (or on a continuation of such schedule attached to such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Loan from such Bank, each payment and prepayment of principal of any such Loan, each payment of interest on any such Loan and the other information provided for on such schedule; provided, however, that any such recordation shall be conclusive absent manifest error and the failure of any Bank to make such a notation or any error therein shall not affect the obligation of the Borrower to repay the Loans made by such Bank in accordance with the terms of this Agreement and the applicable Notes.

SECTION 2.06. Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall

be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed $25,000,000 and (ii) the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans shall not exceed the total Commitments.

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

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

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Agent an amount equal to such LC Disbursement not later than 12:00 (noon), New York City time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that ,if such LC Disbursement is not less than $1,000,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Revolving Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Agent shall notify each Bank of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Bank's Applicable Percentage thereof. Promptly following receipt of such notice, each Bank shall pay to the Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.02 with respect to Loans made by such Bank (and Section 2.02 shall apply, mutatis mutandis, to the payment obligations of the Banks), and the Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Banks. Promptly following receipt by the Agent of any payment from the Borrower pursuant to this paragraph, the Agent shall distribute such payment to the Issuing Bank or, to the extent that Banks have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Banks and the Issuing Bank as their interests may appear. Any payment made by a Bank pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute,

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

for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

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

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.09 shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Bank pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Bank to the extent of such payment.

(i) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Agent, at the request of the Required Banks, demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Agent, in the name of the Agent and for the benefit of the Banks, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind,

upon the occurrence of any Event of Default with respect to the Borrower described in clause (g) or (h) of Article VII. Such deposit shall be held by the Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

SECTION 2.07. Fees. (a) The Borrower agrees to pay to each Bank, through the Agent, on the first Business Day of January, April, July and October, in each year, and on the date on which the Commitment of such Bank shall be terminated as provided herein, a commitment fee (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be terminated); provided, that, for purposes of determining the Commitment Fee, the undrawn portion of the Commitments shall not be deemed to be reduced by the amount of any borrowing under the Auction Facility. The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Rate in effect on such day. All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as appropriate. The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided

herein.

(b) The Borrower agrees to pay (i) to the Agent for the account of each Bank a participation fee with respect to its participations in Letters of Credit, which shall accrue at the Applicable Rate on the average daily amount of such Bank's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Bank's Commitment terminates and the date on which such Bank ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee for Letters of Credit, which shall accrue at the rate per annum of .125% on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the first Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 365 or 366 days, as appropriate and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Agent, for its own account, the fees set forth in the engagement letter dated May 12, 1998, between the Agent and the Borrower, at the times set forth therein (the "Agency Fees" and the "Structuring Fee").

(d) The Borrower agrees to pay the Agent, for its own account, $100 for each Auction Bid Request the Borrower makes, payable the day on which the Auction Bid Request is made.

(e) All Fees shall be paid on the dates due, in immediately available funds, to the Agent (or to the

Issuing Bank, in the case of fees payable to it) for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.08. Interest on Loans. (a) Subject to the provisions of Section 2.09, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Subject to the provisions of Section 2.09, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) (i) in the case of a Eurodollar Revolving Loan at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate or (ii) in the case of a Eurodollar Auction Loan, at the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Margin applicable to such Loan.

(c) Each Fixed Rate Loan shall bear interest at the Fixed Rate applicable to such Loan. Each Delayed Fixed Rate Loan shall bear interest at the Delayed Fixed Rate applicable to such Loan.

(d) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.09. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360

days) equal to the Alternate Base Rate plus the Applicable Rate plus 2%.

SECTION 2.10. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Banks. In the event of any such determination, (i) any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing and (ii) any request by the Borrower for a Eurodollar Auction Borrowing shall be ineffective; provided that (A) if the circumstances giving rise to such notice do not affect all the Banks, then requests by Borrower for Eurodollar Auction Borrowings may be made to Banks that are not affected thereby and (B) if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted. Each determination by the Agent hereunder shall be conclusive absent manifest error.

SECTION 2.11. Termination, Reduction and Extension of Commitments. (a) The Commitments shall be automatically terminated on the Expiration Date.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an integral multiple of $1,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving

effect to any concurrent prepayment of the Loans in accordance with Section 2.12, the sum of the Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans would exceed the total Commitments.

(c) Each reduction in the Commitments hereunder shall be made ratably among the Banks in accordance with their respective applicable Commitments. The Borrower shall pay to the Agent for the account of the Banks, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction.

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

SECTION 2.12. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of $1,000,000, and that the Borrower shall not have the right to prepay any Auction Loan without the prior consent of the Bank thereof.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.11, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Revolving Credit Exposure plus the aggregate principal amount of Auction Loans outstanding will not exceed the aggregate Commitments after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.12 shall be subject to

Section 2.15 but otherwise without premium or penalty. All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.13. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision herein, if after the date of this Agreement there is adopted any new law, rule or regulation or any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) which shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Bank (except any such reserve requirement which is reflected in the Eurodollar Rate) or shall impose on such Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Bank hereunder or under the Notes (whether of principal, interest or otherwise) in respect of Eurodollar Loans by an amount deemed by such Bank to be material, then the Borrower will pay to such Bank upon demand such additional amount or amounts as will compensate such Bank for such additional costs incurred or reduction suffered.

(b) If any Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's

holding company, if any, as a consequence of this Agreement or the Loans made by such Bank pursuant hereto to a level below that which such Bank or such Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

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

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

SECTION 2.14. Change in Legality. (a) Notwithstanding any other provision herein, if any change in, or adoption of, any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Agent, such Bank may:

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

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

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

(b) For purposes of this Section 2.14, a notice to the Borrower by any Bank shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan.

SECTION 2.15. Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to refinance any Eurodollar Loan hereunder after irrevocable notice of such borrowing or refinancing has been given pursuant to Sections 2.03 and 2.04, (c) any payment or prepayment of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto or (d) any default in payment or prepayment of the principal amount of any Eurodollar Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating

or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by such Bank, of (i) its cost of obtaining the funds for the Eurodollar Loan being paid, prepaid, converted or not borrowed (assumed to be the Eurodollar Rate applicable thereto) for the period from the date of such payment, prepayment, conversion or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid or not borrowed for such period or Interest Period, as the case may be. A certificate of any Bank setting forth any amount or amounts which such Bank is entitled to receive pursuant to this Section, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.16. Pro Rata Treatment. Except as required under Sections 2.04 and 2.14, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Commitments and each refinancing of any Borrowing with a Borrowing of any Type shall be allocated pro rata among the Banks in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole dollar amount.

SECTION 2.17. Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy,

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

SECTION 2.18. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or reimbursements of LC Disbursements or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in dollars to the Agent at its offices

at 909 Fanning, Suite 1700, Houston, Texas, in immediately available funds.

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

SECTION 2.19. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.18, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Agent, any Bank or the Issuing Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent, any Bank or the Issuing Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Agent, any such Bank or the Issuing Bank (or such Transferee) or the applicable lending office, is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks or the Issuing Bank (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.19) such Bank or the Issuing Bank (or such Transferee) or the Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to

receive with respect to the rights assigned, participated or other wise transferred unless such assignment, participation or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist.

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

(c) The Borrower will indemnify each Bank (or Transferee), the Issuing Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or such Transferee), the Issuing Bank (or such Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank or the Issuing Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank or the Issuing Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.19, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank or the Issuing Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.19, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.19 with respect to such refund) within 30 days (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), net of all reasonable out-of-pocket expenses of such Bank and without interest; provided that the Borrower, upon the request of such Bank or the Issuing Bank (or such

Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank or the Issuing Bank (or such Transferee) or the Agent in the event such Bank or the Issuing Bank (or such Transferee) or the Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Bank or the Issuing Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential); provided that Borrower, at its expense, shall have the right to receive an opinion from a firm of independent public accountants of recognized national standing acceptable to the Borrower that the amount due hereunder is correctly calculated.

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

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.19 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Agent shall notify the Borrower of each Bank's or the Issuing Bank's (or Transferee's) address. On or prior to the Banks' or the Issuing Bank's (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank or the Issuing Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, deliver to the Borrower and the Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank or such Issuing

Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank or such Issuing Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under the Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

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

SECTION 2.20. Termination or Assignment of Commitments Under Certain Circumstances. (a) Any Bank or the Issuing Bank (or Transferee) claiming any additional amounts payable pursuant to Section 2.13 or Section 2.19 or exercising its rights under Section 2.14 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Bank or such Issuing Bank, be otherwise disadvantageous to such Bank or such Issuing Bank (or Transferee).

(b) In the event that any Bank shall have delivered a notice or certificate pursuant to Section 2.13 or 2.14, or the Borrower shall be required to make additional payments under Section 2.19 to any Bank or the Issuing Bank (or Transferee) or to the Agent with respect to any Bank or the Issuing Bank (or Transferee), the Borrower shall have the right, at its own expense, upon notice to such Bank or the Issuing Bank (or Transferee) and the Agent (and, if a Commitment is being assigned, the Issuing Bank), (a) to terminate the Commitment of such Bank or such Issuing Bank (or Transferee) or (b) to require such Bank or the Issuing Bank (or Transferee) to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all its interests, rights and obligations under this Agreement (other than any outstanding Auction Loans) to another financial institution which shall assume such obligations; provided that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the Borrower or the assignee, as the case may be, shall pay to the affected Bank or the Issuing Bank (or Transferee) in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder and, in the case of a termination or assignment by the Issuing Bank, shall cause all Letters of Credit to be surrendered for cancelation on or prior to the date of such termination or assignment.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

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

SECTION 3.01. Organization; Powers. Each of the Borrower and the Significant Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is qualified to do business in every jurisdiction where such qualification is required, except where the failure so to

qualify would not result in a Material Adverse Effect, and (d) in the case of the Borrower, has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated thereby to which it is or will be a party and to borrow hereunder.

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

SECTION 3.03. Enforceability. This Agreement

has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

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

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 1997, audited by and accompanied by the opinion of Deloitte & Touche, independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, reflect all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof which are material on a consolidated basis. Such financial statements were prepared in accordance with GAAP applied (except as noted therein) on a consistent basis.

SECTION 3.06. No Material Adverse Change. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1998, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 1997, which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

SECTION 3.07. Litigation; Compliance with Laws. (a) Except as set forth in the Annual Report of the Borrower on Form 10-K for the year ended December 31, 1997, or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the

Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

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

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

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

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

SECTION 3.10. Use of Proceeds and Letters of Credit. The Borrower will use the proceeds of the Loans and the Letters of Credit only for the purposes specified in the preamble to this Agreement.

SECTION 3.11. No Material Misstatements. No

information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent, the Issuing Bank or any Bank in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or, when considered together with all reports theretofore filed with the Securities and Exchange Commission, omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading.

SECTION 3.12. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than $10,000,000 the value of the assets of such Plan.

SECTION 3.13. Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in

violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and warranties set forth in this Section 3.13 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1998; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 or the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1998) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

SECTION 3.14. Significant Subsidiaries. Schedule 3.14 sets forth as of the date hereof a list of all Significant Subsidiaries of the Borrower and the percentage ownership interest of the Borrower therein.

SECTION 3.15. Year 2000 Compliance. The Borrower and each Significant Subsidiary has a) initiated a review and assessment of all areas within its and each of its Significant Subsidiaries' business and operations (including those mission critical suppliers and vendors) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower or any of its Significant Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999) and (b) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and, as of the date of this Agreement, is implementing that plan in accordance with that timetable. The Borrower and each Significant Subsidiary reasonably believes that all computer applications that are material to its or any of its Significant Subsidiaries' business and operations will on a timely basis be able to perform properly date-sensitive functions for all dates before and

after January 1, 2000 (that is, be "Year 2000 Compliant"), except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

ARTICLE IV. CONDITIONS OF LENDING

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

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

(a) The Agent shall have received a notice of such Borrowing as required by Section 2.03.

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

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

Each Borrowing and issuance, amendment, renewal or

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

SECTION 4.02. First Borrowing. On the date of this Agreement:

(a) Each Bank shall have received a duly executed Note complying with the provisions of Section 2.05.

(b) The Agent shall have received favorable written opinions of (i) Paine, Hamblen, Coffin, Brooke & Miller, general counsel for the Borrower, and (ii) Reid & Priest, special counsel to the Borrower, each dated the date of this Agreement and addressed to the Banks, to the effect set forth in Exhibits D-1 and D-2 hereto, and the Borrower hereby instructs such counsel to deliver such opinions to the Agent.

(c) The Agent shall have received evidence satisfactory to it and set forth on Schedule 4.02(c) that the Borrower shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions, in each case without the imposition of any condition which, in the judgment of the Banks, could adversely affect their rights or interests hereunder.

(d) All legal matters incident to this Agreement and the borrowings hereunder shall be satisfactory to the Banks and their counsel and to Cravath, Swaine & Moore, counsel for the Agent.

(e) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (A) that attached thereto is a true and complete copy

of the by-laws of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Banks or their counsel or Cravath, Swaine & Moore, counsel for the Agent, may reasonably request.

(f) The Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(g) The Agent shall have received evidence satisfactory to it that confirms the cancelation of the $50,000,000 and $70,000,000 Credit Facilities.

(h) The Agent shall have received all Fees and other amounts due and payable on or prior to the date of this Agreement.

ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank and with the Issuing Bank that so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses, any LC

Disbursement or amounts payable under any Loan Document shall be unpaid or any Letter of Credit remains outstanding, unless the Required Banks shall otherwise consent in writing, the Borrower will:

SECTION 5.01. Existence; Businesses and Properties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.02.

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

SECTION 5.02. Insurance. (a) Maintain insurance, to such extent and against such risks, as is customary with companies in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and (b) maintain such other insurance as may be required by law. All insurance required by this Section 5.02 shall be maintained with financially sound and reputable insurers or through self-insurance; provided, however, that the portion of such insurance constituting self-insurance shall be comparable to that usually maintained by companies engaged in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and the reserves maintained with respect to such self-insured amounts are deemed adequate by the officer or officers of the Borrower responsible for insurance matters.

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

SECTION 5.04. Financial Statements, Reports, etc. Furnish to the Agent and each Bank:

(a) within 105 days after the end of each fiscal year, its consolidated and consolidating balance sheets and related statements of income and statements of cash flow, showing the financial condition of the Borrower and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all audited by Deloitte & Touche or other independent public accountants of recognized national standing acceptable to the Required Banks and

accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis (except as noted therein) in accordance with GAAP consistently applied;

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

(c) concurrently with any delivery of financial statements under (a) or (b) above, a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

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

holders, as the case may be; and

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

SECTION 5.05. Litigation and Other Notices. Furnish to the Agent and each Bank prompt written notice of the following:

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

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

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

SECTION 5.06. ERISA. (a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to the Agent and each Bank (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding $10,000,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the

intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) or to appoint a trustee to administer any Plan or Plans and (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Bank to visit and inspect the financial records and the properties of the Borrower at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Bank to discuss the affairs, finances and condition of the Borrower with the chief financial officer of the Borrower, or other person designated by the chief financial officer, and independent accountants therefor.

SECTION 5.08. Use of Proceeds and Letters of Credit. Use the proceeds of the Loans and the Letters of Credit only for the purposes set forth in the preamble to this Agreement.

ARTICLE VI. NEGATIVE COVENANTS

The Borrower covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan shall be unpaid, any LC Disbursement, any Fees or any other expenses or amounts payable under any Loan Document shall be unpaid or any Letter of Credit remains outstanding, unless the Required Banks shall otherwise consent in writing, the Borrower will not:

SECTION 6.01. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person,

including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments;

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

(c) the Lien of the First Mortgage;

(d) Liens permitted under the First Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage) and any other Liens to which the Lien of the First Mortgage is expressly made subject;

(e) the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower; provided that, so long as the First Mortgage shall constitute a Lien on properties or assets of the Borrower, the bonds, notes or other obligations issued under the Collateral Trust Mortgage (i) shall also be secured by an equal principal amount of bonds issued under the First Mortgage or (ii) shall be issued against property additions not subject to the Lien of the First Mortgage;

(f) Liens permitted under the Collateral Trust Mortgage (whether or not such permitted Liens cover

properties or assets subject to the Lien of the Collateral Trust Mortgage) and any other Liens to which the Lien of the Collateral Trust Mortgage is subject;

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

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

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

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

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

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

(m) rights reserved to or vested in any federal,

state or local governmental body or agency by the terms of any right, power, franchise, grant, license, con tract or permit, or by any provision of law, to recapture or to purchase, or designate a purchase of or order the sale of, any property of the Borrower or to terminate any such right, power, franchise, grant, license, contract or permit before the expiration thereof;

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

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

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

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

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

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

(t) banker's Liens and other Liens in the nature of a right of set-off;

(u) Liens resulting from any transaction permitted under Section 6.03(iv);

(v) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property (it being understood that such limitation does not apply to the Liens described in subsection (c), (e) or (u) above);

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

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

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

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

(aa) cash collateral contemplated under Section 2.06(i); and

(ab) Liens not expressly permitted in clauses (a) through (aa) of this Section 6.01 to secure Indebtedness of the Borrower, provided that the aggregate outstanding principal amount of the Indebtedness so secured does not at any one time exceed 5% of the total assets of the Borrower and its Subsidiaries, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.02. Mergers, Consolidations and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's business, except that if (A) at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and (B) in the case of any merger or consolidation involving the Borrower in which the Borrower is not the surviving corporation, the surviving corporation shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, then (a) the Borrower may merge or consolidate with any Subsidiary in a transaction in which the Borrower is the surviving corporation, (b) the Borrower may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation, or in the case of a merger or consolidation in which the Borrower is not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baa1 or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and

consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.03. Disposition of Assets. Sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or other dispositions permitted under clause (c)(ii) of the definition of Subsidiary Event in Article I (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (c)(ii) (A) through (C) in such definition), exceed 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (i) the Borrower may, in any fiscal year, sell, lease, transfer, assign or otherwise dispose of assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or other dispositions in the ordinary course permitted under clause (c)(ii)(A) of the definition of Subsidiary Event in Article I, do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (ii) to the extent permitted under Section 5.03, 6.01 or Section 6.02, (iii) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington

Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interests in the Colstrip and Centralia Projects and related assets and (v) the Borrower may sell, lease, transfer, assign or otherwise dispose (including by way of capital contribution) of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein.

ARTICLE VII. EVENTS OF DEFAULT

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

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

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

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

(d) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in Section 5.01(a) or

5.05 or in Article VI;

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

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

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

shall be entered and continue unstayed and in effect, for a period of 60 or more days;

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

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

(j) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(l) of the Code), shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the Borrower to the PBGC or to a Plan in an aggregate amount exceeding $25,000,000 and, within 30 days after the reporting of any such Reportable Event to the Agent or after the receipt by

the Agent of the statement required pursuant to Section 5.06, the Agent shall have notified the Borrower in writing that (i) the Required Banks have made a determination that, on the basis of such Reportable Event or Reportable Events or the failure to make a required payment, there are reasonable grounds (A) for the termination of such Plan or Plans by the PBGC, (B) for the appointment by the appropriate United States District Court of a trustee to administer such Plan or Plans or (C) for the imposition of a lien in favor of a Plan and (ii) as a result thereof an Event of Default exists hereunder; or a trustee shall be appointed by a United States District Court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans; or

(k) there shall occur a Subsidiary Event;

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

waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Toronto Dominion (Texas), Inc. is hereby appointed to act as Agent on behalf of the Banks and the Issuing Bank. Each of the Banks and the Issuing Bank hereby irrevocably authorizes and directs the Agent to take such action on behalf of such Bank under the terms and provisions of this Agreement, and to exercise such powers hereunder as are specifically delegated to or required of the Agent by the terms and provisions hereof, together with such powers as are reasonably incidental thereto. The Agent is hereby expressly authorized on behalf of the Banks and the Issuing Bank, without hereby limiting any implied authority, (a) to receive on behalf of each of the Banks any payment of principal of or interest on the Loans outstanding hereunder, LC Reimbursements and all other amounts accrued hereunder paid to the Agent, and to distribute to each Bank its proper share of all payments so received as soon as practicable; (b) to give notice promptly on behalf of each of the Banks to the Borrower of any event of default specified in this Agreement of which the Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute promptly to each Bank copies of all notices, agreements and other material as provided for in this Agreement as received by such Agent.

Neither the Agent nor any of its directors, officers, employees or agents shall be liable to any Bank as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks and the Issuing Bank for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instrument to which reference is made herein. The

Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure or delay in performance or breach by any Bank or the Issuing Bank of any of its obligations hereunder or to any Bank or the Issuing Bank on account of the failure of or delay in performance or breach by any other Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or other affiliate thereof as if it were not the Agent.

Each Bank recognizes that applicable laws, rules, regulations or guidelines of governmental authorities may require the Agent to determine whether the transactions contemplated hereby should be classified as "highly lever aged" or assigned any similar or successor classification, and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the

benefit of the Banks by the Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by the Borrower; provided, however, that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

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

The Agent may execute any of its duties under this Agreement by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or agent shall not release the Agent from its obligation to perform or cause to be

performed the delegated duty.

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

ARTICLE IX. MISCELLANEOUS

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

(a) if to the Borrower, to it at East 1411 Mission Avenue (99202), P.O. Box 3727, Spokane, Washington 99220, Attention of the Senior Vice President, Chief Financial Officer and Treasurer (Telecopy No. 509-482-4879);

(b) if to the Agent, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951-9921);

(c) if to the Issuing Bank, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951-0021); and

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

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt

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

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

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank and the Issuing Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent, the Issuing Bank and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks and the Issuing Bank.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Agent, the Issuing Bank or the Banks that are

contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

(b) Each Bank (including the Agent when acting as a Bank) may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment and the same portion of the applicable Loan or Loans at the time owing to it and the applicable Note or Notes held by it, other than any Auction Loans or Notes held by it, which may, but need not, be assigned); provided, however, that (i) except in the case of an assignment to a Bank or an Affiliate of such Bank, the Borrower and the Agent (and, in the case of an assignment of all or a portion of a Commitment or any Bank's obligation in respect of its LC Exposure, the Issuing Bank) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.13, 2.14(a), 2.15 or 2.19 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, except that this clause (iii) shall not apply to rights in respect of outstanding Auction Loans, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than $5,000,000 (or, if less, the total amount of their Commitments), (v) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or Notes subject to such assignment and a processing and recordation fee of $5,000 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee

thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.15, 2.19 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such

assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

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

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note or Notes subject to such assignment, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered Note or Notes, a new Note or Notes to the order of such assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment, a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Note or Notes shall be in an aggregate principal

amount equal to the aggregate principal amount of such surrendered Note; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower, the Issuing Bank or the Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it and the Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.13, 2.15 and 2.19 to the same extent as if they were Banks (provided, that the amount of such benefit shall be limited to the amount in respect of the interest sold to which the seller of such participation would have been entitled had it not sold such interest) and (iv) the Borrower, the Agent, the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or changing or extending the Commitments).

(g) Any Bank or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Bank by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant

shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information.

(h) Any Bank may at any time assign for security purposes all or any portion of its rights under this Agreement and the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

(i) Subject to Section 6.02, the Borrower shall not assign or delegate any of its rights or duties hereunder.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay (i) all reasonable out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or the Notes issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent, and, in connection with any such amendment, modification or waiver or any such enforcement or protection, the fees, charges and disbursements of any other internal or external counsel for the Agent, the Issuing Bank or any Bank and (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder. The Borrower further agrees that it shall indemnify the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

(b) The Borrower agrees to indemnify the Agent, the Issuing Bank and each Bank and each of their respective directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each

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

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

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or bank Controlling such Bank) to or for the credit or the account of the Borrower against any of and all the obligations of

the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have. Any Bank shall provide the Borrower with written notice promptly after exercising its rights under this Section.

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

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

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or LC Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each holder of a Note affected thereby, (ii) change or

extend the Commitment or decrease the Commitment Fees of any Bank without the prior written consent of such Bank, or (iii) amend or modify the provisions of Section 2.16, the provisions of this Section or the definition of "Required Banks", without the prior written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent or the Issuing Bank hereunder without the prior written consent of the Agent or the Issuing Bank, as the case may be. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

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

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

SECTION 9.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by

applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

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

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

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

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition

or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Agent, Issuing Bank or any other Bank may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower or its properties in the courts of any jurisdiction.

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

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

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

THE WASHINGTON WATER POWER COMPANY,

by

Name:

Title:

TORONTO DOMINION (TEXAS), INC., as Agent,

by

Name:
Title:

THE TORONTO-DOMINION BANK, as Issuing Bank,

by

Name:
Title:

THE BANK OF NEW YORK, as Documentation Agent,

by

Name:
Title:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Syndication Agent,

by

Name:
Title:

TORONTO DOMINION (TEXAS), INC.,

by

Name:
Title:

THE BANK OF NEW YORK,

by

Name:
Title:

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,

by

Name:
Title:

FIRST SECURITY BANK OF IDAHO,

by

Name:
Title:

MELLON BANK, N.A.,

by

Name:
Title:

NATIONSBANK, N.A.,

by

Name:
Title:

U.S. BANK,

by

Name:
Title:

WACHOVIA BANK, N.A.

by

Name:
Title:

WELLS FARGO BANK,

by

Name:
Title:

EXHIBIT A

[FORM OF]

NOTE

$_____ [ ], 1998
New York, New York

FOR VALUE RECEIVED, the undersigned, THE WASHINGTON WATER POWER COMPANY, a Washington corporation (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of Toronto Dominion (Texas), Inc., (the "Agent"), at 909 Fanning, Suite 1700, Houston, Texas 77010, (i) on the last day of each Interest Period, as defined in the $125,000,000 Revolving Credit Agreement dated as of June 30, 1998 (the "Credit Agreement"), among the Borrower, the Banks named therein and the Agent, the aggregate unpaid principal amount of all Loans (as defined in the Credit Agreement) made to the Borrower by the Bank pursuant to the Credit Agreement to which such Interest Period applies and (ii) on the Expiration Date (as defined in the Credit Agreement) the lesser of the principal sum of _____ Dollars ($_____) and the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date hereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at the rate or rates per annum and payable on the dates provided in the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates provided in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates and maturity dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not affect the obligations of the Borrower under this Note.

This Note is one of the Notes referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

THE WASHINGTON WATER
POWER COMPANY

by

Name:
Title:

Loans and Payments

Date	Amount and Type/Class of Loan	Maturity Date	Payments Principal	Payments Interest	Unpaid Principal Balance of Note	Name of Person Making Notation

EXHIBIT B

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the $125,000,000 Credit Agreement dated as of June 30, 1998 (as in effect from time to time, the "Credit Agreement"), among The Washington Water Power Company, a Washington corporation (the "Borrower"), the banks listed on Schedule 2.01 thereto (the "Banks") and Toronto Dominion (Texas), Inc., as agent for the Banks (in such capacity, the "Agent"). Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Effective Date and Revolving Loans [and Auction Loans] owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Revolving Loans [and Auction Loans] to the Effective Date, together with the participations in Letters of Credit and LC Disbursements held by the Assignor on the Effective Date, and the amount, if any, set forth on the reverse hereof of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor

shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being delivered to the Agent together with (i) the Notes evidencing the Loans included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.19(f) of the Credit Agreement, duly completed and executed by such Assignee, (iii) if the Assignee is not already a Bank under the Credit Agreement, an Administrative Questionnaire in the form of Exhibit C to the Credit Agreement and (iv) a processing and recordation fee of $5,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment):

Facility	Principal Amount Assigned (and identifying information as to individual Auction Loans)	Percentage Assigned of Facility and Commitment Thereunder (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Banks thereunder)
Commitment Assigned:	$	%
Revolving Loans:	$	%
[Auction Loans:	$	%]
Fees Assigned (if any):	$	%

The terms set forth above and on the reverse side hereof are hereby agreed to:

Accepted:

_____, as Assignor

TORONTO DOMINION (TEXAS), INC., as Agent

By:_____
Name:
Title:

By:_____
Name:
Title:

_____, as Assignee

THE WASHINGTON POWER COMPANY

By:_____
Name:
Title:

By:_____
Name:
Title:

EXHIBIT C

Administrative Questionnaire

EXHIBIT D-1

Opinion of General Counsel for the Borrower

EXHIBIT D-2

Opinion of Special Counsel for the Borrower

SCHEDULE 2.01

Banks

Bank	Commitment
Toronto Dominion (Texas), Inc. 909 Fanning Suite 1700 Houston, TX 77010 Attention: Ms. Kimberly Burleson Telecopy: (713)951-9921 With copies to: Toronto Dominion Bank U.S.A. Division 31 West 52nd Street New York, NY 10019-6101 Attention: Mr. Peter Cody Telecopy: (212) 262-1929	$21,875,000
Bank of America National Trust and Savings Association 555 California Street 41st floor San Francisco, CA 94104 Attention: Mr. Lawrence Balingit Telecopy: (415) 622-0632	$21,875,000
First Security Bank of Idaho 119 North 9th Street (83702) Boise, ID 83730 Attention: Mr. Brian Cook Telecopy: (509) 353-2472	$6,250,000

Bank	Commitment
Mellon Bank, N.A. 400 South Hope Street 5th floor Los Angeles, CA 9071-2806 Attention: Mr. Scott Sommers Telecopy: (213) 629-0492 Copies to: Mellon Bank, N.A. 1 Mellon Bank Center 500 Grant Street (AIM# 151-4425) Pittsburgh, PA 15258-0001 Attention: Mr. Mark Rogers Telecopy: (412) 234-1813	$9,375,000
The Bank of New York One Wall Street New York, NY 10286 Attention: Mr. Timothy Lynch Telecopy: (212) 635-7923	$15,625,000
NationsBank, N.A. 901 Main Street 64th Floor P.O. Box 830104 Dallas, TX 75202 Attention: Mr. Curtis Anderson Telecopy: (214) 508-3943	$15,625,000
U.S. Bank 1420 Fifth Avenue 11th floor WWH276 Seattle, WA 98101 Attention: Mr. Wilfred C. Jack Telecopy: (206) 587-5259	$12,500,000

Bank	Commitment
Wachovia Bank, N.A. 191 Peachtree St. N.E. Atlanta, GA 30303 Attention: Mr. David Alexander Telecopy: (404) 332-6898	$9,375,000
Wells Fargo Bank W. 524 Riverside Avenue 6th floor Spokane, WA 00210-0085 Attention: Mr. Tom Beil Telecopy: (509) 455-5762	$12,500,000

SCHEDULE 3.14

Significant Subsidiaries

Name	Percent Ownership
Avista Corp.	100%
Pentzer Corporation	100%

SCHEDULE 4.02(c)

Orders of Governmental Authorities

1. Order(s) of the Washington Utilities and Transportation Commission.

2. Order(s) of the Oregon Public Utility Commission.

3. Order(s) of the Idaho Public Utilities Commission.

4. Order(s) of the California Public Utilities Commission.

Exhibit 10(q)-5

[LOGO]

LONG-TERM INCENTIVE PLAN

SECTION 1. PURPOSE

The purpose of the Avista Corporation Long-Term Incentive Plan (the "Plan") is to enhance the long-term shareholder value of Avista Corporation, a Washington corporation (the "Company"), by offering opportunities to employees, directors and officers of the Company and its Subsidiaries (as defined in Section 2) to participate in the Company's growth and success, and to encourage them to remain in the service of the Company and its Subsidiaries and to acquire and maintain stock ownership in the Company.

SECTION 2. DEFINITIONS

For purposes of the Plan, the following terms are defined as set forth below:

2.1 Award

"Award" means an award or grant made to a Participant pursuant to the Plan, including, without limitation, awards or grants of Options, Stock Appreciation Rights, Stock Awards, Performance Awards, Other Stock-Based Awards or any combination of the foregoing (including any Dividend Equivalent Rights granted in connection with such Awards).

2.2 Board

"Board" means the Board of Directors of the Company.

2.3 Cause

"Cause" means (a) the willful and continued failure of the Holder to perform substantially the Holder's duties with the Company or one of its Subsidiaries (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Holder by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or the Chief Executive Officer believes that the Holder has not substantially performed the Holder's duties; or (b) the willful engaging by the Holder in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

2.4 Change of Control

"Change of Control" means any of the following events:

(a) acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either

(i) the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or

(ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities "); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2.4;

(b) A change in the Board so that individuals who constitute the Board (the "Incumbent Board ") as of the date of adoption of the Plan cease for any reason to constitute at least a majority of the Board after such date; provided, however, that any individual becoming a director subsequent to such date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination "), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of Common Stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business

Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of Common Stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

2.5 Code

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.6 Common Stock

"Common Stock" means the common stock, no par value, of the Company.

2.7 Disability

"Disability" means "disability" as that term is defined for purposes of the Company's Long-Term Disability Plan or other similar successor plan applicable to salaried employees.

2.8 Dividend Equivalent Right

"Dividend Equivalent Right" means an Award granted under Section 13.

2.9 Early Retirement

"Early Retirement" means early retirement as that term is defined by the Plan Administrator from time to time for purposes of the Plan.

2.10 Exchange Act

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.11 Fair Market Value

The "Fair Market Value" shall be the average of the high and low per share sales prices for the Common Stock on the New York Stock Exchange as such price is officially quoted in the composite tape of transactions on such exchange for a single trading day. If there is no such reported price for the Common Stock for the date in question, then such price on the last preceding date for which such price exists shall be determinative of Fair Market Value.

2.12 Good Reason

"Good Reason" means:

(a) The assignment to the Holder of any duties inconsistent in any respect with the Holder's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Holder;

(b) Any failure of the Company to comply with its standard compensation arrangements with the Holder, including the failure to continue in effect any material compensation or benefit plan (or the substantial equivalent thereof) in which the Holder was participating at the time of a Change of Control, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof from the Holder;

(c) Any purported termination of the Holder's employment or service for Cause by the Company that does not comply with the terms of the Plan; or

(d) The failure of the Company to require that any Successor Corporation (whether by purchase, merger, consolidation or otherwise) expressly assume and agree to be bound by the terms of the Plan in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

2.13 Grant Date

"Grant Date" means the date the Plan Administrator adopted the granting resolution or a later date designated in a resolution of the Plan Administrator as the date an Award is to be granted.

2.14 Holder

"Holder" means:

(a) the Participant to whom an Award is granted;

(b) for a Holder who has died, the personal representative of the Holder's estate, the person(s) to whom the Holder's rights under the Award have passed by will or by the applicable laws of descent and distribution, or the beneficiary designated in accordance with Section 14; or

(c) the person(s) to whom an Award has been transferred in accordance with Section 14.

2.15 Incentive Stock Option

"Incentive Stock Option" means an Option to purchase Common Stock granted under Section 7 with the intention that it qualify as an "incentive stock option" as that term is defined in Section 422 of the Code.

2.16 Nonqualified Stock Option

"Nonqualified Stock Option" means an Option to purchase Common Stock granted under Section 7 other than an Incentive Stock Option.

2.17 Option

"Option" means the right to purchase Common Stock granted under Section 7.

2.18 Other Stock-Based Award

"Other Stock-Based Award" means an Award granted under Section 12.

2.19 Participant

"Participant" means an individual who is a Holder of an Award or, as the context may require, any employee, director or officer of the Company or a Subsidiary who has been designated by the Plan Administrator as eligible to participate in the Plan.

2.20 Performance Award

"Performance Award" means an Award granted under Section 11, the payout of which is subject to achievement through a performance period of performance goals prescribed by the Plan Administrator.

2.21 Plan Administrator

"Plan Administrator" means the Board or any committee of the Board designated to administer the Plan under Section 3.1.

2.22 Restricted Stock

"Restricted Stock" means shares of Common Stock granted under Section 10, the rights of ownership of which are subject to restrictions prescribed by the Plan Administrator.

2.23 Retirement

"Retirement" means retirement as of the individual's normal retirement date under the Company's retirement plan for salaried employees or other similar successor plan applicable to salaried employees.

2.24 Securities Act

"Securities Act" means the Securities Act of 1933, as amended.

2.25 Stock Appreciation Right

"Stock Appreciation Right" means an Award granted under Section 9.

2.26 Stock Award

"Stock Award" means an Award granted under Section 10.

2.27 Subsidiary

"Subsidiary," except as provided in Section 8.3 in connection with Incentive Stock Options, means any entity that is directly or indirectly controlled by the Company or in which the Company has a significant ownership interest, as determined by the Plan Administrator, and any entity that may become a direct or indirect parent of the Company.

2.28 Successor Corporation

"Successor Corporation" has the meaning set forth under Section 15.2.

2.29 Trust and Trustee

"Trust" and "Trustee" have the meanings set forth in Section 3.2.

2.30 Trustee Shares

"Trustee Shares" has the meaning set forth in Section 3.3.

SECTION 3. ADMINISTRATION

3.1 Plan Administrator

The Plan shall be administered by the Board or a committee or committees (which term includes subcommittees) appointed by, and consisting of two or more members of, the Board. If and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, the Board shall consider in selecting the Plan Administrator and the membership of any committee acting as Plan Administrator, with respect to any persons subject or likely to become subject to Section 16 of the Exchange Act, the provisions regarding (a) "outside directors" as contemplated by Section 162(m) of the Code and (b) "nonemployee directors" as contemplated by Rule 16b-3 under the Exchange Act. The Board may delegate the responsibility for administering the Plan with respect to designated classes of eligible Participants to different committees consisting of two or more members of the Board, subject to such limitations as the

Board or the Plan Administrator deems appropriate. Committee members shall serve for such term as the Board may determine, subject to removal by the Board at any time.

3.2 Administration and Interpretation by the Plan Administrator

Except for the terms and conditions explicitly set forth in the Plan, the Plan Administrator shall have exclusive authority, in its discretion, to determine all matters relating to Awards under the Plan, including the selection of individuals to be granted Awards, the type of Awards, the number of shares of Common Stock subject to an Award, all terms, conditions, restrictions and limitations, if any, of an Award and the terms of any instrument that evidences the Award, and to authorize the Trustee (the "Trustee") of any Trust (the "Trust") that may be required pursuant to the Plan to grant Awards to Participants. The Plan Administrator shall also have exclusive authority to interpret the Plan and may from time to time adopt, and change, rules and regulations of general application for the Plan's administration. The Plan Administrator's interpretation of the Plan and its rules and regulations, and all actions taken and determinations made by the Plan Administrator pursuant to the Plan, shall be conclusive and binding on all parties involved or affected. The Plan Administrator may delegate administrative duties to such of the Company's officers as it so determines.

3.3 Trust for the Long-Term Incentive Plan

Payments may be, but need not be, made to the Trustee, such payments to be used by the Trustee to purchase shares of the Common Stock. Shares purchased by the Trustee pursuant to the terms of the Trust ("Trustee Shares") shall be held for the benefit of Participants, and shall be distributed to Participants or their beneficiaries by the Trustee at the direction of the Plan Administrator in accordance with the terms and conditions of the Awards. Awards may also be made in units that are redeemable (in whole or in part) in Trustee Shares.

SECTION 4. STOCK SUBJECT TO THE PLAN

4.1 Authorized Number of Shares

Subject to adjustment from time to time as provided in Section 15.1, a maximum of 2,500,000 shares of Common Stock shall be available for issuance under the Plan. Shares issued under the Plan shall be drawn from authorized and unissued shares or shares now held or subsequently acquired by the Company or, if required by applicable law, shall be purchased by the Trustee on the open market. In the event a Trust is required, the Company shall not issue any Common Stock under the Plan to the Trust or to any Participant, nor shall the Company purchase any Trustee Shares from the Trust.

4.2 Limitations

(a) Subject to adjustment from time to time as provided in Section 15.1, not more than an aggregate of 625,000 shares shall be available for issuance pursuant to grants of Restricted Stock under the Plan.

(b) Subject to adjustment from time to time as provided in Section 15.1, not more than 200,000 shares of Common Stock may be made subject to Awards under the Plan to any individual Participant in the aggregate in any one fiscal year of the Company, such limitation to be applied in a manner consistent with the requirements of, and only to the extent required for compliance with, the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code.

4.3 Reuse of Shares

Any shares of Common Stock that have been made subject to an Award that cease to be subject to the Award (other than by reason of exercise or payment of the Award to the extent it is exercised for or settled in shares) shall again be available for issuance in connection with future grants of Awards under the Plan; provided, however, that for purposes of Section 4.2, any such shares shall be counted in accordance with the requirements of Section 162(m) of the Code. Shares that are subject to tandem Awards shall be counted only once.

SECTION 5. ELIGIBILITY

Awards may be granted under the Plan to those officers, directors and employees of the Company and its Subsidiaries as the Plan Administrator from time to time selects.

SECTION 6. AWARDS

6.1 Form and Grant of Awards

The Plan Administrator shall have the authority, in its sole discretion, to determine the type or types of Awards to be made under the Plan. Such Awards may include, but are not limited to, Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Stock Awards, Performance Awards, Other Stock-Based Awards and Dividend Equivalent Rights. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of the Company.

6.2 Acquired Company Awards

Notwithstanding anything in the Plan to the contrary, the Plan Administrator may grant Awards under the Plan in substitution for awards issued under other plans, or assume under the Plan awards issued under other plans, if the other plans are or were plans of other acquired entities ("Acquired Entities") (or the parent of the Acquired Entity) and the new Award is substituted, or the old award is assumed, by reason of a merger, consolidation, acquisition of property or of stock, reorganization or liquidation (the "Acquisition Transaction"). In the event that a written agreement pursuant to which the Acquisition Transaction is completed is approved by the Board and said agreement sets forth the terms and conditions of the substitution for or assumption of outstanding awards of the Acquired Entity, said terms and conditions shall be deemed to be the action of the Plan Administrator without any further action by the Plan

Administrator, except as may be required for compliance with Rule 16b-3 under the Exchange Act, and the persons holding such Awards shall be deemed to be Participants and Holders.

SECTION 7. AWARDS OF OPTIONS

7.1 Grant of Options

The Plan Administrator is authorized under the Plan, in its sole discretion, to issue Options as Incentive Stock Options or as Nonqualified Stock Options, which shall be appropriately designated.

7.2 Option Exercise Price

The exercise price for shares purchased under an Option shall be as determined by the Plan Administrator, but shall not be less than 100% of the Fair Market Value of the Common Stock on the Grant Date.

7.3 Term of Options

The term of each Option shall be as established by the Plan Administrator or, if not so established, shall be 10 years from the Grant Date.

7.4 Exercise of Options

The Plan Administrator shall establish and set forth in each instrument that evidences an Option the time at which or the installments in which the Option shall vest and become exercisable, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Option, the Option will vest and become exercisable according to the following schedule, which may be waived or modified by the Plan Administrator at any time:

PERIOD OF HOLDER'S CONTINUOUS EMPLOYMENT OR SERVICE WITH THE COMPANY OR ITS SUBSIDIARIES FROM THE OPTION GRANT DATE	PERCENT OF TOTAL OPTION THAT IS VESTED AND EXERCISABLE
After 1 year	25%
After 2 years	50%
After 3 years	75%
After 4 years	100%

To the extent that the right to purchase shares has accrued thereunder, an Option may be exercised from time to time by written notice to the Company, in accordance with procedures established by the Plan Administrator, setting forth the number of shares with respect to which the Option is being exercised and accompanied by payment in full as described in Section 7.5. The Plan Administrator may determine at any time that an Option may not be exercised as to less than 100 shares at any one time (or the lesser number of remaining shares covered by the Option).

7.5 Payment of Exercise Price

The exercise price for shares purchased under an Option shall be paid in full to the Company by delivery of consideration equal to the product of the Option exercise price and the number of shares purchased. Such consideration must be paid in cash or by check, or, unless the Plan Administrator in its sole discretion determines otherwise, either at the time the Option is granted or at any time before it is exercised, a combination of cash and/or check (if any) and one or both of the following alternative forms:

(a) tendering (either actually or, if and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, by attestation) Common Stock already owned by the Holder for at least six months (or any shorter period necessary to avoid a charge to the Company's earnings for financial reporting purposes) having a Fair Market Value on the day prior to the exercise date equal to the aggregate Option exercise price or

(b) if and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, delivery of a properly executed exercise notice, together with irrevocable instructions, to

(i) a brokerage firm designated by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the Option exercise price and any withholding tax obligations that may arise in connection with the exercise and

(ii) the Company to deliver the certificates for such purchased shares directly to such brokerage firm, all in accordance with the regulations of the Federal Reserve Board.

In addition, to the extent permitted by the Plan Administrator in its sole discretion, the price for shares purchased under an Option may be paid, either singly or in combination with one or more of the alternative forms of payment authorized by this Section 7.5 by (y) a full-recourse promissory note delivered pursuant to Section 16 or (z) such other consideration as the Plan Administrator may permit.

7.6 Post-Termination Exercises

The Plan Administrator shall establish and set forth in each instrument that evidences an Option whether the Option will continue to be exercisable, and the terms and conditions of such exercise, if a Holder ceases to be employed by, or to provide services to, the Company or its Subsidiaries, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Option, the Option will be exercisable according to the following terms and conditions, which may be waived or modified by the Plan Administrator at any time.

In case of termination of the Holder's employment or services other than by reason of death or Cause, the Option shall be exercisable, to the extent of the number of shares purchasable by the Holder at the date of such termination, only

(a) within one year if the termination of the Holder's employment or services is coincident with Retirement, Early Retirement in connection with a Company program offering early retirement or Disability or

(b) within three months after the date the Holder ceases to be an employee, director, or officer of the Company or a Subsidiary if termination of the Holder's employment or services is for any reason other than Retirement, Early Retirement in connection with a Company program offering early retirement or Disability, but in no event later than the remaining term of the Option. Any Option exercisable at the time of the Holder's death may be exercised, to the extent of the number of shares purchasable by the Holder at the date of the Holder's death, by the personal representative of the Holder's estate, the person(s) to whom the Holder's rights under the Award have passed by will or the applicable laws of descent and distribution or the beneficiary designated pursuant to Section 14 at any time or from time to time within one year after the date of death, but in no event later than the remaining term of the Option. Any portion of an Option that is not exercisable on the date of termination of the Holder's employment or services shall terminate on such date, unless the Plan Administrator determines otherwise. In case of termination of the Holder's employment or services for Cause, the Option shall automatically terminate upon first notification to the Holder of such termination, unless the Plan Administrator determines otherwise. If a Holder's employment or services with the Company are suspended pending an investigation of whether the Holder shall be terminated for Cause, all the Holder's rights under any Option likewise shall be suspended during the period of investigation.

A transfer of employment or services between or among the Company and its Subsidiaries shall not be considered a termination of employment or services for purposes of this Section 7.6. The effect of a Company-approved leave of absence on the terms and conditions of an Option shall be determined by the Plan Administrator, in its sole discretion.

SECTION 8. INCENTIVE STOCK OPTION LIMITATIONS

To the extent required by Section 422 of the Code, Incentive Stock Options shall be subject to the following additional terms and conditions:

8.1 Dollar Limitation

To the extent the aggregate Fair Market Value (determined as of the Grant Date) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time during any calendar year (under the Plan and all other stock option plans of the Company) exceeds $100,000, such portion in excess of $100,000 shall be treated as a Nonqualified Stock Option. In the event the Participant holds two or more such Options that become exercisable for

the first time in the same calendar year, such limitation shall be applied on the basis of the order in which such Options are granted.

8.2 10% Shareholders

If a Participant owns more than 10% of the total voting power of all classes of the Company's stock, then the exercise price per share of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of the Common Stock on the Grant Date and the Option term shall not exceed five years. The determination of 10% ownership shall be made in accordance with Section 422 of the Code.

8.3 Eligible Employees

Individuals who are not employees of the Company or one of its parent corporations or subsidiary corporations may not be granted Incentive Stock Options. For purposes of this Section 8.3, "parent corporation" and "subsidiary corporation" shall have the meanings attributed to those terms for purposes of Section 422 of the Code.

8.4 Term

The term of an Incentive Stock Option shall not exceed 10 years.

8.5 Exercisability

To qualify for Incentive Stock Option tax treatment, an Option designated as an Incentive Stock Option must be exercised within three months after termination of employment for reasons other than death, except that, in the case of termination of employment due to total disability, such Option must be exercised within one year after such termination. Employment shall not be deemed to continue beyond the first 90 days of a leave of absence unless the Participant's reemployment rights are guaranteed by statute or contract. For purposes of this Section 8.5, "total disability" shall mean a mental or physical impairment of the Participant that is expected to result in death or that has lasted or is expected to last for a continuous period of 12 months or more and that causes the Participant to be unable, in the opinion of the Company and two independent physicians, to perform his or her duties for the Company and to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the Company and the two independent physicians have furnished their opinion of total disability to the Plan Administrator.

8.6 Taxation of Incentive Stock Options

In order to obtain certain tax benefits afforded to Incentive Stock Options under Section 422 of the Code, the Participant must hold the shares issued upon the exercise of an Incentive Stock Option for two years after the Grant Date of the Incentive Stock Option and one year from the date of exercise. A Participant may be subject to the alternative minimum tax at the time of exercise of an Incentive Stock Option. The Plan Administrator may require a Participant to give the Company prompt notice of any disposition of shares acquired by the exercise of an Incentive Stock Option prior to the expiration of such holding periods.

8.7 Promissory Notes

The amount of any promissory note delivered pursuant to Section 16 in connection with an Incentive Stock Option shall bear interest at a rate specified by the Plan Administrator but in no case less than the rate required to avoid imputation of interest (taking into account any exceptions to the imputed interest rules) for federal income tax purposes.

SECTION 9. STOCK APPRECIATION RIGHTS

9.1 Grant of Stock Appreciation Rights

The Plan Administrator may grant a Stock Appreciation Right separately or in tandem with a related Option.

9.2 Tandem Stock Appreciation Rights

A Stock Appreciation Right granted in tandem with a related Option will give the Holder the right to surrender to the Company all or a portion of the related Option and to receive an appreciation distribution (in shares of Common Stock or cash or any combination of shares and cash, as the Plan Administrator, in its sole discretion, shall determine at any time) in an amount equal to the excess of the Fair Market Value for the date the Stock Appreciation Right is exercised over the exercise price per share of the right, which shall be the same as the exercise price of the related Option. A tandem Stock Appreciation Right will have the same other terms and provisions as the related Option. Upon and to the extent a tandem Stock Appreciation Right is exercised, the related Option will terminate.

9.3 Stand-Alone Stock Appreciation Rights

A Stock Appreciation Right granted separately and not in tandem with an Option will give the Holder the right to receive an appreciation distribution (in shares of Common Stock or cash or any combination of shares and cash, as the Plan Administrator, in its sole discretion, shall determine at any time) in an amount equal to the excess of the Fair Market Value for the date the Stock Appreciation Right is exercised over the exercise price per share of the right.

A stand-alone Stock Appreciation Right will have such terms as the Plan Administrator may determine, except that the exercise price per share of the right must be at least equal to 100% of the Fair Market Value on the Grant Date and the term of the right, if not otherwise established by the Plan Administrator, shall be 10 years from the Grant Date.

9.4 Exercise of Stock Appreciation Rights

Unless otherwise provided by the Plan Administrator in the instrument that evidences the Stock Appreciation Right, the provisions of Section 7.6 relating to the termination of a Holder's employment or services shall apply equally, to the extent applicable, to the Holder of a Stock Appreciation Right.

SECTION 10. STOCK AWARDS

10.1 Grant of Stock Awards

The Plan Administrator is authorized to make Awards of Common Stock to Participants on such terms and conditions and subject to such restrictions, if any (which may be based on continuous service with the Company or the achievement of performance goals related to earnings, earnings per share, profits, profit growth, profit-related return ratios, cost management, dividend payout ratios, economic value added, cash flow or total shareholder return, where such goals may be stated in absolute terms or relative to comparison companies), as the Plan Administrator shall determine, in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the Award. The terms, conditions and restrictions that the Plan Administrator shall have the power to determine shall include, without limitation, the manner in which shares subject to Stock Awards are held during the periods they are subject to restrictions and the circumstances under which forfeiture of Restricted Stock shall occur by reason of termination of the Holder's services.

10.2 Issuance of Shares

Upon the satisfaction of any terms, conditions and restrictions prescribed in respect to a Stock Award, or upon the Holder's release from any terms, conditions and restrictions of a Stock Award, as determined by the Plan Administrator, the Company shall release, as soon as practicable, to the Holder or, in the case of the Holder's death, to the personal representative of the Holder's estate or as the appropriate court directs, the appropriate number of shares of Common Stock.

10.3 Waiver of Restrictions

Notwithstanding any other provisions of the Plan, the Plan Administrator may, in its sole discretion, waive the forfeiture period and any other terms, conditions or restrictions on any Restricted Stock under such circumstances and subject to such terms and conditions as the Plan Administrator shall deem appropriate.

SECTION 11. PERFORMANCE AWARDS

11.1 Plan Administrator Authority

Performance Awards may be denominated in cash, shares of Common Stock or any combination thereof. The Plan Administrator is authorized to grant Performance Awards and shall determine the nature, length and starting date of the performance period for each Performance Award and the performance objectives to be used in valuing Performance Awards and determining the extent to which such Performance Awards have been earned. Performance objectives and other terms may vary from Participant to Participant and between groups of Participants. Performance objectives shall be based on earnings, earnings per share, profits, profit growth, profit-related return ratios, cost management, dividend payout ratios, economic value added, cash flow or total shareholder return, where such goals may be stated in absolute terms or relative to comparison companies, as the Plan Administrator shall determine, in its sole

discretion. Additional performance measures may be used to the extent their use would comply with the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code. Performance periods may overlap and Participants may participate simultaneously with respect to Performance Awards that are subject to different performance periods and different performance factors and criteria.

The Plan Administrator shall determine for each Performance Award the range of dollar values or number of shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10), or a combination thereof, to be received by the Participant at the end of the performance period if and to the extent that the relevant measures of performance for such Performance Awards are met. If Performance Awards are denominated in cash, no more than an aggregate maximum dollar value in excess of $1,000,000 shall be granted to any individual Participant in any one fiscal year of the Company, such limitations to be applied in a manner consistent with the requirements of, and to the extent required for compliance with, the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code. The earned portion of a Performance Award may be paid currently or on a deferred basis with such interest or earnings equivalent as may be determined by the Plan Administrator. Payment shall be made in the form of cash, whole shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10), Options or any combination thereof, either in a single payment or in annual installments, all as the Plan Administrator shall determine.

11.2 Adjustment of Awards

The Plan Administrator may adjust the performance goals and measurements applicable to Performance Awards to take into account changes in law and accounting and tax rules and to make such adjustments as the Plan Administrator deems necessary or appropriate to reflect the inclusion or exclusion of the impact of extraordinary or unusual items, events or circumstances, except that, to the extent required for compliance with the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code, no adjustment shall be made that would result in an increase in the compensation of any Participant whose compensation is subject to the limitation on deductibility under Section 162(m) of the Code for the applicable year. The Plan Administrator also may adjust the performance goals and measurements applicable to Performance Awards and thereby reduce the amount to be received by any Participant pursuant to such Awards if and to the extent that the Plan Administrator deems it appropriate.

11.3 Payout Upon Termination

The Plan Administrator shall establish and set forth in each instrument that evidences a Performance Award whether the Award will be payable, and the terms and conditions of such payment, if a Holder ceases to be employed by, or to provide services to, the Company or its Subsidiaries, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Performance Award, the Award will be payable according to the following terms and conditions, which may be waived or modified by the Plan Administrator at any time. If during a performance period a Participant's employment or services with the Company terminate by reason of the Participant's Retirement,

Early Retirement at the Company's request, Disability or death, such Participant shall be entitled to a payment with respect to each outstanding Performance Award at the end of the applicable performance period (a) based, to the extent relevant under the terms of the Award, on the Participant's performance for the portion of such performance period ending on the date of termination and (b) prorated for the portion of the performance period during which the Participant was employed by the Company, all as determined by the Plan Administrator. The Plan Administrator may provide for an earlier payment in settlement of such Performance Award discounted at a reasonable interest rate and otherwise in such amount and under such terms and conditions as the Plan Administrator deems appropriate.

Except as otherwise provided in Section 15 or in the instrument evidencing the Performance Award, if during a performance period a Participant's employment or services with the Company terminate other than by reason of the Participant's Retirement, Early Retirement at the Company's request, Disability or death, then such Participant shall not be entitled to any payment with respect to the Performance Awards relating to such performance period, unless the Plan Administrator shall otherwise determine. The provisions of Section 7.6 regarding leaves of absence and termination for Cause shall apply to Performance Awards.

SECTION 12. OTHER STOCK-BASED AWARDS

The Plan Administrator may grant other Awards under the Plan pursuant to which shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10) are or may in the future be acquired, or Awards denominated in stock units, including ones valued using measures other than market value. Such Other Stock-Based Awards may be granted alone or in addition to or in tandem with any Award of any type granted under the Plan and must be consistent with the Plan's purpose.

SECTION 13. DIVIDEND EQUIVALENT RIGHTS

Any Awards under the Plan may, in the Plan Administrator's discretion, earn Dividend Equivalent Rights. In respect of any Award that is outstanding on the dividend record date for Common Stock, the Participant may be credited with an amount equal to the cash or stock dividends or other distributions that would have been paid on the shares of Common Stock covered by such Award had such covered shares been issued and outstanding on such dividend record date. The Plan Administrator shall establish such rules and procedures governing the crediting of Dividend Equivalent Rights, including the timing, form of payment and payment contingencies of such Dividend Equivalent Rights, as it deems are appropriate or necessary.

SECTION 14. ASSIGNABILITY

No Option, Stock Appreciation Right, Stock Award, Performance Award, Other Stock-Based Award or Dividend Equivalent Right granted under the Plan may be assigned or transferred by the Holder other than by will or by the applicable laws of descent and distribution, and, during the Holder's lifetime, such Awards may be exercised only by the Holder or a permitted assignee or transferee of the Holder (as provided below). Notwithstanding the foregoing, and to the extent permitted by Section 422 of the Code, the Plan Administrator, in its sole discretion, may permit such assignment, transfer and exercisability and may permit a Holder

of such Awards to designate a beneficiary who may exercise the Award or receive compensation under the Award after the Holder's death; provided, however, that any Award so assigned or transferred shall be subject to all the same terms and conditions contained in the instrument evidencing the Award.

SECTION 15. ADJUSTMENTS

15.1 Adjustment of Shares

In the event that, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure results in (a) the outstanding shares, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of securities of the Company or of any other corporation or (b) new, different or additional securities of the Company or of any other corporation being received by the holders of shares of Common Stock of the Company, then the Plan Administrator shall make proportional adjustments in (i) the maximum number and kind of securities subject to the Plan as set forth in Section 4.1, (ii) the maximum number and kind of securities that may be made subject to Stock Awards and to Awards to any individual Participant as set forth in Section 4.2, and (iii) the number and kind of securities that are subject to any outstanding Award and the per share price of such securities, without any change in the aggregate price to be paid therefor. The determination by the Plan Administrator as to the terms of any of the foregoing adjustments shall be conclusive and binding.

15.2 Change of Control

Except as otherwise provided in the instrument that evidences the Award, in the event of any Change of Control, each Award that is at the time outstanding shall automatically accelerate so that each such Award shall, immediately prior to the specified effective date for the Change of Control, become 100% vested and exercisable, except that such acceleration will not occur if, in the opinion of the Company's outside accountants, it would render unavailable "pooling of interest" accounting for a Change of Control that would otherwise qualify for such accounting treatment. Such Award shall not so accelerate, however, if and to the extent that such Award is, in connection with the Change of Control, either to be assumed by the successor corporation or parent thereof (the "Successor Corporation") or to be replaced with a comparable award for the purchase of shares of the capital stock of the Successor Corporation. The determination of Award comparability under clause (a) above shall be made by the Plan Administrator, and its determination shall be conclusive and binding. All such Awards shall terminate and cease to remain outstanding immediately following the consummation of the Change of Control, except to the extent assumed by the Successor Corporation. Any such Awards that are assumed or replaced in the Change of Control and do not otherwise accelerate at that time shall be accelerated in the event that the Holder's employment or services should subsequently terminate within three years following such Change of Control, unless such employment or services are terminated by the Successor Corporation for Cause or by the Holder voluntarily without Good Reason.

15.3 Further Adjustment of Awards

Subject to Section 15.2, and subject to the limitations set forth in Section 11, the Plan Administrator shall have the discretion, exercisable at any time before a sale, merger, consolidation, reorganization, liquidation or other corporate transaction, as defined by the Plan Administrator, to take such further action as it determines to be necessary or advisable, and fair and equitable to Participants, with respect to Awards. Such authorized action may include (but shall not be limited to) establishing, amending or waiving the type, terms, conditions or duration of, or restrictions on, Awards so as to provide for earlier, later, extended or additional time for exercise, payment or settlement or lifting restrictions, differing methods for calculating payments or settlements, alternate forms and amounts of payments and settlements and other modifications, and the Plan Administrator may take such actions with respect to all Participants, to certain categories of Participants or only to individual Participants. The Plan Administrator may take such action before or after granting Awards to which the action relates and before or after any public announcement with respect to such sale, merger, consolidation, reorganization, liquidation or change in control that is the reason for such action.

15.4 Limitations

The grant of Awards will in no way affect the Company's right to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

SECTION 16. WITHHOLDING

The Company may require the Holder to pay to the Company the amount of any withholding taxes that the Company is required to withhold with respect to the grant, exercise, payment or settlement of any Award. Subject to the Plan and applicable law and unless the Plan Administrator determines otherwise, the Holder may satisfy withholding obligations, in whole or in part, by paying cash, by electing to have the Company withhold shares of Common Stock or by transferring shares of Common Stock to the Company, in such amounts as are equivalent to the Fair Market Value of the withholding obligation. The Company shall have the right to withhold from any Award or any shares of Common Stock issuable pursuant to an Award or from any cash amounts otherwise due or to become due from the Company to the Participant an amount equal to such taxes. The Company may also deduct from any Award any other amounts due from the Participant to the Company or a Subsidiary.

SECTION 17. LOANS, INSTALLMENT PAYMENTS AND LOAN GUARANTEES

To assist a Holder (including a Holder who is an officer or a director of the Company) in acquiring shares of Common Stock pursuant to an Award granted under the Plan, the Plan Administrator, in its sole discretion, may authorize, either at the Grant Date or at any time before the acquisition of Common Stock pursuant to the Award, (a) the extension of a loan to the Holder by the Company, (b) the payment by the Holder of the purchase price, if any, of the Common Stock in installments, or (c) the guarantee by the Company of a loan obtained by the grantee from a third party. The terms of any loans, installment payments or loan guarantees, including the interest rate and terms of and security for repayment, will be subject to the Plan

Administrator's discretion. The maximum credit available is the purchase price, if any, of the Common Stock acquired, plus the maximum federal and state income and employment tax liability that may be incurred in connection with the acquisition.

SECTION 18. AMENDMENT AND TERMINATION OF PLAN

18.1 Amendment of Plan

The Plan may be amended only by the Board as it shall deem advisable; however, to the extent required for compliance with Section 422 of the Code or any applicable law or regulation, shareholder approval will be required for any amendment that will (a) increase the total number of shares as to which Options may be granted or that may be used in payment of Stock Appreciation Rights, Performance Awards, Other Stock-Based Awards or Dividend Equivalent Rights under the Plan or that may be issued as Stock Awards, (b) modify the class of persons eligible to receive Options, or (c) otherwise require shareholder approval under any applicable law or regulation.

18.2 Termination of Plan

The Board may suspend or terminate the Plan at any time. The Plan will have no fixed expiration date; provided, however, that no Incentive Stock Options may be granted more than 10 years after the earlier of the Plan's adoption by the Board and approval by the shareholders.

18.3 Consent of Holder

The amendment or termination of the Plan shall not, without the consent of the Holder of any Award under the Plan, impair or diminish any rights or obligations under any Award theretofore granted under the Plan. Any change or adjustment to an outstanding Incentive Stock Option shall not, without the consent of the Holder, be made in a manner so as to constitute a "modification" that would cause such Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option.

SECTION 19. GENERAL

19.1 Award Agreements

Awards granted under the Plan shall be evidenced by a written agreement that shall contain such terms, conditions, limitations and restrictions as the Plan Administrator shall deem advisable and that are not inconsistent with the Plan.

19.2 Continued Employment or Services; Rights in Awards

None of the Plan, participation in the Plan as a Participant or any action of the Plan Administrator taken under the Plan shall be construed as giving any Participant or employee of the Company any right to be retained in the employ of the Company or limit the Company's right to terminate the employment or services of the Participant.

19.3 Registration

The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under state securities laws, any shares of Common Stock, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made.

The Company may issue certificates for shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for the Company deems necessary or desirable for compliance by the Company with federal and state securities laws.

Inability of the Company to obtain, from any regulatory body having jurisdiction, the authority deemed by the Company's counsel to be necessary for the lawful issuance and sale of any shares hereunder or the unavailability of an exemption from registration for the issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the nonissuance or sale of such shares as to which such requisite authority shall not have been obtained.

19.4 No Rights as a Shareholder

No Award shall entitle the Holder to any cash dividend (except to the extent provided in an Award of Dividend Equivalent Rights), voting or other right of a shareholder unless and until the date of issuance under the Plan of the shares that are the subject of such Award, free of all applicable restrictions.

19.5 Compliance With Laws and Regulations

Notwithstanding anything in the Plan to the contrary, the Board, in its sole discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan to Participants who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Participants. Additionally, in interpreting and applying the provisions of the Plan, any Option granted as an Incentive Stock Option pursuant to the Plan shall, to the extent permitted by law, be construed as an "incentive stock option" within the meaning of Section 422 of the Code.

19.6 Unfunded Plan

The Plan is intended to constitute an "unfunded" plan. Nothing contained herein shall require the Company to segregate any monies or other property, or shares of Common Stock, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any Participant, and no Participant shall have any rights that are greater than those of a general unsecured creditor of the Company.

19.7 Severability

If any provision of the Plan or any Award is determined to be invalid, illegal or unenforceable in any jurisdiction, or as to any person, or would disqualify the Plan or any Award under any law deemed applicable by the Plan Administrator, such provision shall be construed or deemed amended to conform to applicable laws, or, if it cannot be so construed or deemed amended without, in the Plan Administrator's determination, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

SECTION 20. EFFECTIVE DATE

The Plan's effective date is the date on which it is adopted by the Board, so long as it is approved by the Company's shareholders at any time within 12 months of such adoption or, if earlier, and to the extent required for compliance with Rule 16b-3 under the Exchange Act, at the next annual meeting of the Company's shareholders after adoption of the Plan by the Board.

Exhibit 10(s)

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement"), is made as of June 2, 1998, between The Washington Water Power Company, a Washington corporation (the "Company"), and Thomas Matthews ("Executive").

WHEREAS, the Company desires to retain the services of Executive upon the terms and conditions set forth herein; and

WHEREAS, Executive is willing to provide services to the Company upon the terms and conditions set forth herein;

NOW, THEREFORE, for and in consideration of the mutual promises, covenants and agreements set forth below, the Company and Executive hereby agree as follows:

1. EMPLOYMENT AND DUTIES: LOCATION

The Company will employ Executive and Executive will accept employment by the Company as its Chief Executive Officer and (assuming Executive is re-elected to the Company's Board of Directors (the "Board") by the Company's shareholders when necessary) Chairman of the Board. Executive shall, subject to the Company's Articles of Incorporation and Bylaws and to the authority of the Board, be in charge of the management of the business and affairs of the Company. Executive will perform the duties customarily performed by the Chairman and Chief Executive Officer of a corporation which is, in all respects, similar to the Company and such other duties as may be assigned from time to time by the Board, which relate to the business of the Company or its subsidiaries, or any business ventures in which the Company or its subsidiaries may participate. The Executive's services will be performed at the Company's offices in Spokane, Washington, in Houston, Texas, and at other locations, all at the direction of the Board.

2. ATTENTION AND EFFORT

Executive will devote all of his entire working time, ability, attention and effort to the Company's business and will skillfully serve its interests during the term of this Agreement; provided, however that Executive may devote reasonable periods of time to (a) engaging in personal investment activities, (b) serving on the Board of Directors of other corporations, if such service would not otherwise be prohibited by Section 11 hereof, and (c) engaging in charitable or community service activities, so long as none of the foregoing additional activities materially interfere with the performance of Executive's duties under this Agreement.

3. TERM

Unless otherwise terminated pursuant to Section 9 of this Agreement, Executive's term of employment under this Agreement will commence on July 1, 1998 (the "Commencement Date") and will expire on the fifth anniversary of the Commencement Date (the "Employment Period").

4. CERTAIN PAYMENTS, OPTIONS AND BENEFITS

As an incentive to induce Executive to commence his employment with the Company, and to compensate Executive for certain compensation and awards he will forfeit as a result of leaving his prior employment, the Company shall provide Executive with the payments, restricted stock and option awards and other benefits set forth in this Section 4.

4.1. SIGNING BONUS

On the Commencement Date, the Company shall award Executive a signing bonus of $1,000,000 (the "Signing Bonus"). Of the total Signing Bonus, $300,000 shall be paid to Executive on the Commencement Date, less required payroll tax deductions. Receipt of the balance of the Signing Bonus shall be deferred by the Executive pursuant to the Company's Executive Deferral Plan. In the event that Executive terminates his employment with the Company prior to the expiration of the Employment Period under Section 9.2 hereof, other than for Good Reason (as defined in Section 9.6 below), Executive shall repay to the Company, within 60 days of date of termination, that amount of the Signing Bonus as is proportionate to the period of time remaining in the Employment Period (e.g., if Executive so terminates his employment with the Company on the third anniversary of the Commencement Date, two-fifths or $400,000 of the signing bonus shall be repaid to the Company).

4.2. RESTRICTED STOCK AWARD

Executive will be awarded restricted shares of the Company's Common Stock (the "Common Stock") having a fair market value on the Commencement Date equal to $2,000,000. One-third of this award will vest on each of the third, fourth and fifth anniversaries of the Commencement Date. For purposes of this Section 4.2, the "fair market value" of the Common Stock means the average of the high and low trading prices on the applicable day. This award shall be made by the Company as soon as reasonably practicable following the Commencement Date. Regardless of the date this award is made, the number of restricted shares awarded to Executive shall be calculated as described in the first sentence of this Section 4.2.

4.3. STOCK OPTION GRANT

On the Commencement Date, subject to shareholder approval of the Long-Term Incentive Plan' Executive will be awarded an option to purchase 100,000 shares of Common Stock, with an exercise price equal to the fair market value of the Common Stock on the Commencement Date. These options will vest at the rate of 25% on each of the first four anniversaries of the Commencement Date.

4.4. RELOCATION AND MOVING EXPENSES

The Company shall pay or reimburse Executive for the following expenses incurred by Executive in connection with his relocation to the Spokane, Washington area:

(a) reasonable temporary living expenses, for a period of up to 60 days, incurred by Executive and his family for food, lodging (in a hotel, apartment or club), and other incidentals, including a rental car if necessary;

(b) reasonable expenses costs incurred by Executive for up to four round trips between Houston, Texas and Spokane, Washington during the first 60 days of Executive's employment;

(c) reasonable expenses (including airfare, lodging and meals) incurred by Executive's spouse in connection with a homefinding trip of up to seven days to Spokane, Washington;

(d) reasonable moving expenses incurred by Executive and his family in connection with the moving of their household goods, personal possessions and car (mileage or moving expense) from Houston, Texas to the Spokane, Washington area; and

(e) if Executive purchases a home in the Spokane, Washington area within the first year of his employment by the Company, the reasonable costs incurred by Executive in connection with the closing of the purchase of such home, including credit reports, surveys, title insurance, brokers commissions, pre-purchase inspection fees, transfer fees, bank loan origination fees and other closing fees.

5. COMPENSATION

During the Employment Period, the Company agrees to pay or cause to be paid to Executive, and Executive agrees to accept in exchange for the services rendered hereunder by him, the following compensation:

5.1. BASE SALARY

Executive's compensation will consist, in part, of an annual base salary of $750,000 before all customary payroll deductions. Such annual base salary shall be paid in substantially equal installments and at the same intervals as other officers of the Company are paid. The Board or a Committee thereof shall determine increases, if any, in the amount of the annual base salary in future years. Notwithstanding the foregoing, a portion of such annual base salary may be deferred by Executive, in Executive's sole discretion, in accordance with the terms of the Company's Executive Deferral Plan.

5.2. BONUS

Executive will participate in the Company's Executive Incentive Compensation ("EIC") Plan (or a comparable successor plan). Under the EIC Plan, Executive will be entitled to receive a bonus of 100% of his annual base salary upon achievement of targeted levels of financial and other performance goals (which are established annually by the Compensation Committee of the Board), and will be entitled to receive a bonus of up to 150% of his annual base salary if such targeted levels are exceeded. Notwithstanding the foregoing, with respect to each of 1998 and 1999 even if applicable

performance goals are not satisfied, Executive will be entitled to receive a minimum guaranteed annual bonus of $300,000 (prorated with respect to 1998 as described below). For any partial calendar year included in the Employment Period, Executive shall be eligible to earn under the EIC Plan the appropriate proportion of such annual base salary and, if applicable, guaranteed annual bonus (e.g.1 assuming the Commencement Date is July 1, 1998, with respect to 1998 the Executive would be eligible to earn a maximum of $562,500 under the EIC Plan ($375,000 if targeted performance levels are met but not exceeded), and Executive's guaranteed annual bonus for 1998 would be $150,000). In accordance with the EIC Plan, payouts thereunder may be made in cash or in shares of the Common Stock, in the discretion of the Compensation Committee.

5.3. EQUITY INCENTIVE COMPENSATION

Executive shall be granted an annual award of equity-based incentive compensation (which may be in the form of stock options, restricted stock, performance shares, stock appreciation rights or other forms of equity). The form of the award may vary from year to year, and shall be determined by the Compensation Committee. Each annual grant must have a five-year projected pre-tax value of at least $1,000,000. Executive acknowledges that the projected value is subject to the future market performance of the Common Stock and that there is no guarantee that the actual value of such annual grant will achieve that value. "Projected value" means that at the end of five years from the date of grant, assuming a 15% compound annual growth rate of the market value of the Common Stock, the value of the equity award is, or it may be exercised to obtain Common Stock having a market price of; $1,000,000 over any applicable exercise price. These annual equity incentive compensation awards are subject to vesting, forfeiture and other terms and conditions of the Company's Long-Term Incentive Plan (or comparable successor plan). In the event that the Board desires to grant equity incentive awards to Executive on a date substantially different than the anniversary of the Commencement Date in order to make the grant to Executive hereunder concurrent with grants of equity incentive awards to other executive officers of the Company, then a proportionate adjustment shall be made in the minimum projected pre-tax value of awards relating to less than a full year.

The initial annual equity incentive compensation award granted to Executive under this Section 5.3 shall consist of options to purchase 50,000 shares of Common Stock, with an exercise price equal to the fair market value of the Common Stock on the grant date, and with vesting at the rate of 25% per year on each anniversary of the grant date.

6. RETIREMENT BENEFITS

Executive shall be entitled to participate in the Company's Retirement Plan for Employees and the Supplemental Executive Retirement Plan (or in the applicable successor plans thereto). For purposes of the Supplemental Executive Retirement Plan, Executive will vest at the rate of 20% per year of employment, and for purposes of both the Retirement Plan for Employees and the Supplemental Executive Retirement Plan, Executive will receive one year of past service credit for each year of future service at the Company.

7. OTHER FRINGE BENEFITS

During the Employment Period, Executive will be entitled to participate, subject to and in accordance with applicable eligibility requirements, in all health care, insurance, deferred compensation and other employee benefit plans generally available to officers or senior executives of the Company, consistent with the terms of those plans as they may currently exist or be modified from time to time. Executive shall also be entitled to not less than 30 days paid leave pursuant to the Company's One-Leave Program (as currently in effect or as may be modified from time to time) and to holidays and other fringe benefits provided by the Company policy to officers or senior executives of the Company, as those policies may currently exist or be modified from time to time.

8. REIMBURSEMENT OF BUSINESS EXPENSES

The Company agrees to pay or reimburse Executive for all expenses, including those for travel and entertainment, properly incurred by him in the performance of his duties hereunder in accordance with policies established from time to time by the Board.

9. TERMINATION

Employment of Executive pursuant to this Agreement may be terminated as follows, but in any case, the provisions of Section 11 hereof shall survive the termination of this Agreement and the termination of Executive's employment hereunder:

9.1. BY THE COMPANY

With or without Cause (as defined below), the Company may terminate the employment of Executive at any time during the Employment Period upon giving Notice of Termination (as defined below).

9.2. BY EXECUTIVE

With or without Good Reason (as defined below), Executive may terminate his employment at any time during the Employment Period upon giving Notice of Termination.

9.3. AUTOMATIC TERMINATION

This Agreement and Executive's employment hereunder shall terminate automatically upon the death or total disability of Executive. The term "total disability" as used herein shall mean permanent and total disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Termination under this Section 9.3 shall be deemed to be effective (a) at the end of the calendar month in which Executive's death occurs or (b) immediately upon a determination by the Board of Executive's total disability, as defined herein.

9.4. NOTICE

The term "Notice of Termination" shall mean at least 20 days' written notice of termination of Executive's employment, during which period Executive's employment and performance of services will continue; provided, however that the Company may, upon notice to Executive and without reducing Executive's compensation during such period, excuse Executive from any or all of his duties during such period. The effective date of the termination of Executive's employment hereunder shall be the date on which such 20-day period expires.

9.5. CAUSE

Wherever reference is made in this Agreement to termination being with or without Cause, "Cause" is limited to the occurrence of one or more of the following events:

(a) Failure or refusal to carry out the lawful duties of Executive described in Section 1 hereof or any directions of the Board of Directors of the Company, which directions are reasonably consistent with the duties herein set forth to be performed by Executive;

(b) Violation by Executive of a state or federal criminal law involving the commission of a crime against the Company or a felony;

(c) Current use by Executive of illegal substances; deception, fraud, misrepresentation or dishonesty by Executive; any incident materially compromising Executive's reputation or ability to represent the Company with the public; any act or omission by Executive which substantially impairs the Company's business, good will or reputation; or any other misconduct; or

(d) My other material violation of any provision of this Agreement.

9.6. GOOD REASON

Wherever reference is made in this Agreement to termination being with or without Good Reason, "Good Reason" is limited to the occurrence of one or more of the following events:

(a) the reduction in the Executive's annual base salary as specified in Section 5.1 of this Agreement or the reduction in the value of other bonus payments or equity awards that Executive is eligible to receive under Sections 5.2 and 5.3 of this Agreement (provided, however, that Good Reason shall not exist under this Section 9.6(a) in the event Executive does not actually realize such values because of failure to satisfy performance or other criteria applicable to such bonus payments or equity awards);

(b) the material diminution or reduction without his consent of the Executive's title, authority, duties or responsibilities;

(c) the Company requiring Executive without his consent to be based at any offices or locations other than the locations specified in Section 1 of this Agreement; or

(d) any breach by the Company of any other material provision of this Agreement.

10. TERMINATION PAYMENTS

In the event of termination of the employment of Executive, all compensation and benefits set forth in this Agreement shall terminate except as specifically provided in this Section 10:

10.1. TERMINATION BY THE COMPANY

If the Company terminates Executive's employment without Cause prior to the end of the Employment Period, (a)(i) Executive will be entitled to receive termination payments equal to the greater of 24 months' annual base salary or the annual base salary Executive would have received if his employment hereunder had continued until the end of the Employment Period; (ii) the restricted stock award granted to Executive under Section 4.2 hereof will vest in full; and (iii) vesting of all other equity awards or stock options granted to Executive pursuant to this Agreement will accelerate on the date of termination, but only up to the percentage that would have been vested had Executive remained in regular employment with the Company to the end of the Employment Period; and (b) Executive will be entitled to receive any unpaid annual base salary which has accrued for services already performed as of the date termination of Executive's employment becomes effective. For purposes of determining under clause (a)(iii) above whether equity awards or options that vest upon achievement of stock price appreciation goals would have been vested at the end of the Employment Period, a 15% annual growth rate in the market price of the Common Stock from the date of termination of employment shall be assumed.

If Executive is terminated by the Company for Cause, Executive shall not be entitled to receive any of the foregoing benefits, other than those set forth in clause (b) above.

10.2. TERMINATION BY EXECUTIVE

In the case of the termination of Executive's employment by Executive other than for Good Reason, Executive shall not be entitled to any payments hereunder, other than those set forth in Section 10. 1(b) hereof In the case of the termination of Executive's employment for Good Reason, Executive shall be entitled to receive those payments set forth in Section 10.1(a) and (b) hereof.

10.3. EXPIRATION OF TERM

In the case of a termination of Executive's employment as a result of the expiration of the Employment Period, Executive shall not be entitled to receive any payments hereunder, other than those set forth in Section 10.1 (b) hereof.

10.4. TERMINATION BECAUSE OF DEATH OR TOTAL DISABILITY

In the event of a termination of Executive's employment because of his death or total disability, Executive or his personal representative shall be entitled to receive termination payments in accordance with the Company's Executive Income Continuation Plan' or any successor plan thereto generally applicable to the Company's executive officers.

10.5. TERMINATION IN CONNECTION WITH A CHANGE IN CONTROL

Executive and the Company shall enter into a Change in Control Agreement, in the form attached hereto as Exhibit A. Notwithstanding Sections 10.1 and 10.2 of this Agreement and in full substitution of all payments otherwise due thereunder, if Executive's employment is terminated for any reason following a Change in Control (as defined in such agreement) of the Company, Executive shall be entitled to receive those termination payments provided in the Change in Control Agreement. The letter agreements or other documents evidencing the equity awards and stock options granted to the Executive pursuant to this Agreement shall not provide for automatic acceleration of vesting in the event of a Change of Control of the Company unless such Change of Control is a result of the Company being taken over by another corporation, entity or person(s). In addition to the ordinary meaning and usage in corporate settings of the terms "takeover" and "taken over," the Company shall be considered taken over if it has a controlling shareholder whose control of the Company has not been specifically approved by a majority of the members of the Board of Directors who do not represent and are not affiliated with such controlling shareholder.

10.6. PAYMENT SCHEDULE

All payments under this Section 10 shall be made to Executive at the same interval as payments of salary were made to Executive immediately prior to termination.

11. NONCOMPETITION AND NONSOLICITATION

11.1. APPLICABILITY

This Section 11 shall survive the termination of Executive's employment with the Company or the expiration of the Employment Period.

11.2. DEFINITION OF THE COMPANY

For purposes of Sections 11.3 and 11.4 hereof; the "Company" shall include all subsidiaries of the Company and any business ventures in which the Company or its subsidiaries may participate.

11.3. SCOPE OF COMPETITION

Executive agrees that he will not, directly or indirectly, during his employment and for a period of the greater of (a) two years from the date on which his employment

with the Company terminates (for any reason), or this Agreement expires, or (b) if applicable, the period of time as to which Executive is entitled to receive termination payments under Section 10. 1(a)(i) hereof; be employed by, consult with or otherwise perform services for, own, manage, operate, join, control or participate in the ownership, management, operation or control of or be connected with, in any manner, any Competitor. A "Competitor" shall include any entity which, directly or indirectly, competes with the Company or produces, markets, distributes or otherwise derives benefit from the production, marketing or distribution of products or services which compete with products then produced or services then being provided or marketed, by the Company or the feasibility for production of which the Company is then actually studying, or which is preparing to market or is developing products or services that will be in competition with the products or services then produced or being studied or developed by the Company, in each case within the United States or Canada, unless released from such obligation in writing by the Board. Executive shall be deemed to be related to or connected with a Competitor if such Competitor is (a) a partnership in which he is a general or limited partner or employee, (b) a corporation or association of which he is a shareholder, officer, employee or director, or (c) a partnership, corporation or association of which he is a member, consultant or agent; provided however that nothing herein shall prevent the purchase or ownership by Executive of shares which constitute less than five percent of the outstanding equity securities of a publicly or privately held corporation, if Executive had no other relationship with such corporation.

11.4. SCOPE OF NONSOLICITATION

Executive shall not directly or indirectly solicit, influence or entice, or attempt to solicit, influence or entice, any executive or consultant of the Company to cease his or her relationship with the Company or solicit, influence, entice or in any way divert any customer, distributor, partner, joint venturer or supplier of the Company to do business or in any way become associated with any Competitor. This Section 11.4 shall apply during the time period and geographical area described in Section 11.3 hereof.

11.5. CONFIDENTIAL INFORMATION

Employee acknowledge that the Company's business is highly competitive and that the Company's books, records and documents, the Company's technical information concerning its products, equipment, services and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial data) concerning the Company's customers and business Affiliates, all comprise confidential business information and trade secrets of the Company which are valuable, special, and unique assets of the Company, which the Company uses in its business to obtain a competitive advantage over the Company's competitors which do not know or use this information. Employee further acknowledges that protection of the Company's confidential business information and trade secrets against unauthorized disclosure and use, is of critical importance to the Company in maintaining its competitive position. Accordingly, Employee hereby agrees that he will not, at any time during or after his employment by the Company, make any unauthorized disclosure of any confidential business information or trade secrets of the Company, or make any use thereof, except for the

benefit of, and on behalf of the Company, or make any use thereof, except for the benefit of; and on behalf of the Company. For the purposes of this Section, the term the "Company" shall also include Affiliates of the Company.

11.6. RETURN OF MATERIALS

In the event of the termination of Executive's employment with the Company or the expiration of this Agreement, Executive will return all documents, data and other materials of whatever nature, including, without limitation, drawings, specifications, research, reports, embodiments, software and manuals to the Company which pertain to his employment with the Company or to any Intellectual Property and shall not retain or cause or allow any third party to retain photocopies or other reproductions of the foregoing.

11.7. EQUITABLE RELIEF

Executive acknowledges that the provisions of this Section 11 are essential to the Company, that the Company would not enter into this Agreement if it did not include this Section 11 and that damages sustained by the Company as a result of a breach of this Section 11 cannot be adequately remedied by damages, and Executive agrees that the Company, notwithstanding any other provision of this Agreement, including, without limitation, Section 18 hereof, and in addition to any other remedy it may have under this Agreement or at law, shall be entitled to injunctive and other equitable relief to prevent or curtail any breach of any provision of this Agreement, including, without limitation, this Section 11.

12. REPRESENTATIONS AND WARRANTIES

In order to induce the Company to enter into this Agreement, Executive represents and warrants to the Company that neither the execution nor the performance of this Agreement by Executive will violate or conflict in any way with any other agreement by which Executive may be bound, or with any other duties imposed upon Executive by corporate or other statutory or common law.

13. INDEMNIFICATION

Executive and the Company shall enter into an Indemnification Agreement in the form attached hereto as Exhibit B. Executive shall be indemnified by the Company to the extent permitted by applicable law and as provided by the Company's Bylaws.

14. NOTICE AND CURE OF BREACH

Whenever a breach of this Agreement by either party is relied upon as justification for any action taken by the other party pursuant to any provision of this Agreement, other than pursuant to the definition of "Cause" set forth in Section 9.5 hereof, before such action is taken, the party asserting the breach of this Agreement shall give the other party at least 20 days' prior written notice of the existence and the nature of such breach before taking further action hereunder and shall give the party purportedly in breach of this Agreement the opportunity to correct such breach during the 20-day period.

15. FORM OF NOTICE

All notices given hereunder shall be given in writing, shall specifically refer to this Agreement and shall be personally delivered or sent by telecopy or other electronic facsimile transmission or by reputable overnight courier, at the address set forth below or at such other address as may hereafter be designated by notice given in compliance with the terms hereof. Such notice shall be effective upon receipt or upon refusal of the addressee to accept delivery.

If to Executive: Mr. Thomas Matthews

_____

_____

If to the Company: The Washington Water Power Company
Attn: _____
1411 East Mission Avenue
Spokane, WA

16. ASSIGNMENT

This Agreement is personal to Executive and shall not be assignable by Executive. The Company may assign its rights hereunder to (a) any corporation resulting from any merger, consolidation or other reorganization to which the Company is a party or (b) any corporation, partnership, association or other person to which the Company may transfer all or substantially all of the assets and business of the Company existing at such time. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

17. WAIVERS

No delay or failure by any party hereto in exercising, protecting or enforcing any of its rights, titles, interests or remedies hereunder, and no course of dealing or performance with respect thereto, shall constitute a waiver thereof The express waiver by a party hereto of any right, title, interest or remedy in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance. All rights and remedies shall be cumulative and not exclusive of any other rights or remedies.

18. ARBITRATION

Subject to the provisions of Section 11.7 hereof, any controversies or claims arising out of or relating to this Agreement shall be fully and finally settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect (the "AAA Rules"), conducted by one arbitrator either mutually agreed upon by the Company and Executive or chosen in accordance with the

AAA Rules, except that the parties thereto shall have any right to discovery as would be permitted by the Federal Rules of Civil Procedure for a period of 90 days following the commencement of such arbitration and the arbitrator thereof shall resolve any dispute which arises in connection with such discovery. The prevailing party shall be entitled to costs, expenses and reasonable attorneys' fees, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

19. AMENDMENTS IN WRITING

No amendment, modification, waiver, termination or discharge of any provision of this Agreement, nor consent to any departure therefrom by either party hereto, shall in any event be effective unless the same shall be in writing, specifically identifying this Agreement and the provision intended to be amended, modified, waived, terminated or discharged and signed by the Company and Executive, and each such amendment, modification, waiver, termination or discharge shall be effective only in the specific instance and for the specific purpose for which given. No provision of this Agreement shall be varied, contradicted or explained by any oral agreement, course of dealing or performance or any other matter not set forth in an agreement in writing and signed by the Company and Executive.

20. SEVERABILITY

If any provision of this Agreement shall be held invalid, illegal or unenforceable in any jurisdiction, for any reason, including, without limitation, the duration of such provision, its geographical scope or the extent of the activities prohibited or required by it, then, to the full extent permitted by law (a) all other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intent of the parties hereto as nearly as may be possible, (b) such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision hereof, and (c) any court or arbitrator having jurisdiction thereover shall have the power to reform such provision to the extent necessary for such provision to be enforceable under applicable law.

21. MISCELLANEOUS

(a) This Agreement shall in all respects, including all matters of construction, validity and performance, be governed by, and construed and enforced in accordance with, the laws of the state of Washington, without regard to any rules governing conflicts of laws.

(b) All headings used herein are for convenience only and shall not in any way affect the construction of, or be taken into consideration in interpreting, this Agreement.

(c) This Agreement, and any amendment or modification entered into pursuant to Section 19 hereof, may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same instrument.

(d) This Agreement on the date hereof constitutes the entire agreement between the Company and Executive with respect to the subject matter hereof and all prior or contemporaneous oral or written communications, understandings or agreements between the Company and Executive with respect to such subject matter are hereby superseded and nullified in their entireties.

IN WITNESS WHEREOF, the parties have executed and entered into this Agreement on the date set forth above.

EXECUTIVE:

/s/ Thomas M. Matthews

COMPANY:

By: /s/ Paul A. Redmond

Its: Chairman & CEO

EXHIBIT 12

THE WASHINGTON WATER POWER COMPANY

Computation of Ratio of Earnings to Fixed Charges
and Preferred Dividend Requirements
Consolidated
(Thousands of Dollars)

	Years Ended December 31				
	1998	1997	1996	1995	1994
Fixed charges, as defined:					
Interest on long-term debt	$ 66,218	$ 63,413	$ 60,256	$ 55,580	$ 49,566
Amortization of debt expense and premium - net	2,859	2,862	2,998	3,441	3,511
Interest portion of rentals	4,301	4,354	4,311	3,962	1,282
Total fixed charges	$ 73,378	$ 70,629	$ 67,565	$ 62,983	$ 54,359
Earnings, as defined:					
Net income from continuing ops	$ 78,139	$114,797	$ 83,453	$ 87,121	$ 77,197
Add (deduct):					
Income tax expense	43,335	61,075	49,509	52,416	44,696
Total fixed charges above	73,378	70,629	67,565	62,983	54,359
Total earnings	$194,852	$246,501	$200,527	$202,520	$176,252
Ratio of earnings to fixed charges	2.66	3.49	2.97	3.22	3.24
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 73,378	$ 70,629	$ 67,565	$ 62,983	$ 54,359
Preferred dividend requirements (2)	13,057	8,261	12,711	14,612	13,668
Total	$ 86,435	$ 78,890	$ 80,276	$ 77,595	$ 68,027
Ratio of earnings to fixed charges and preferred dividend requirements	2.25	3.12	2.50	2.61	2.59

(1) Calculations have been restated to reflect the results from continuing operations (ie. excluding discontinued coal mining operations).

(2) Preferred dividend requirements have been grossed up to their pre-tax level.

Exhibit 21

Avista Corporation

SUBSIDIARIES OF REGISTRANT

Subsidiary	State of Incorporation
Altus Corporation	Nevada
Avista Capital, Inc.	Washington
Avista Advantage, Inc.	Washington
Avista Communications, Inc.	Washington
Avista Development, Inc.	Washington
Avista Energy, Inc.	Washington
Avista Fiber, Inc.	Washington
Avista International, Inc.	Washington
Avista Laboratories, Inc.	Washington
Avista Power, Inc.	Washington
Pentzer Corporation	Washington
WWP Receivables Corp.	Washington
Avista Energy Canada, Inc.	Alberta, Canada

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONSOLIDATED FINANCIAL STATEMENTS OF THE WASHINGTON WATER POWER COMPANY,
INCLUDED IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998,
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS
DEC-31-1998
DEC-31-1998
PER-BOOK
1,470,942
540,620
976,936
282,088
0
3,270,586
372,106
(4,517)
120,445
488,024
145,000
269,227
640,217
21,425
37,903
0
60,446
0
4,403
2,222
1,601,709
3,270,586
3,683,984
43,335
3,511,164
3,511,164
172,820
17,731
190,551
69,077
78,139
8,399
69,740
56,898
46,933
267,903
1.28
1.28

LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S
CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER
CATEGORIES REQUIRED BY THIS SCHEDULE.
OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES,
DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER
LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT, FROM THE COMPANY'S
CONSOLIDATED BALANCE SHEET.
THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE
ITEM. IT IS INCLUDED ON THE COMPANY'S STATEMENTS AS A BELOW-THE-LINE ITEM.
INCOME BEFORE INTEREST EXPENSE IS NOT A SPECIFIC LINE ITEM ON THE COMPANY'S
INCOME STATEMENTS. THE COMPANY COMBINES TOTAL INTEREST EXPENSE AND OTHER INCOME
TO CALCULATE INCOME BEFORE INCOME TAXES.