

SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

AVISTA CORPORATION  
 (Exact name of registrant as specified in its charter)

WASHINGTON 91-0462470  
 (State or other jurisdiction of (I.R.S. Employer Identification No.)  
 incorporation or organization)

1411 EAST MISSION AVENUE  
 SPOKANE, WASHINGTON  
 (509) 489-0500

(Address, including zip code, and telephone number, including area  
 code, of registrant's principal executive offices)

David J. Meyer, Esq. Avista Corporation 1411 East Mission Avenue Spokane, Washington (509) 489-4316	J. Anthony Terrell, Esq. Thelen Reid & Priest LLP 40 West 57th Street New York, New York 10019 (212) 603-2108
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(Names and addresses, including zip codes, and telephone numbers,  
 including area codes, of agents for service)

Approximate date of commencement of proposed sale of the securities  
 to the public:  
 AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If the securities being registered on this Form are being offered in  
 connection with the formation of a holding company and there is compliance with  
 General Instruction G, check the following box. [ ]

If this Form is filed to register additional securities for an offering  
 pursuant to Rule 462(b) under the Securities Act, check the following box and  
 list the Securities Act registration statement number of the earlier effective  
 registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d)  
 under the Securities Act, check the following box and list the Securities Act  
 registration statement number of the earlier effective registration statement  
 for the same offering. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT (1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)	AMOUNT OF REGISTRATION FEE
9.75% Senior Notes due June 1, 2008	\$400,000,000	100%	\$400,000,000	\$100,000

(1) Determined solely for the purpose of calculating the registration fee  
 pursuant to Rule 457(f)(2) promulgated under the Securities Act.  
 The Registrant hereby amends this Registration Statement on such date or  
 dates as may be necessary to delay its effective date until the Registrant shall  
 file a further amendment which specifically states that this Registration  
 Statement shall thereafter become effective in accordance with Section 8(a) of  
 the Securities Act, or until the Registration Statement shall become effective  
 on such date as the Securities and Exchange Commission, acting pursuant to said  
 Section 8(a), may determine.

Subject to completion, dated June 4, 2001

AVISTA CORPORATION

EXCHANGE OFFER

AVISTA CORP. IS OFFERING TO ISSUE ITS

9.75% SENIOR NOTES DUE JUNE 1, 2008  
(REGISTERED)

IN EXCHANGE FOR ITS

9.75% SENIOR NOTES DUE JUNE 1, 2008  
(UNREGISTERED)

THIS EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M.  
NEW YORK CITY TIME, , 2001 UNLESS EXTENDED

- o The new notes will
  - o bear interest at 9.75% per annum,
  - o mature on June 1, 2008, and
  - o be redeemable, at the option of Avista Corp., as described in this prospectus.

These terms are the same as the terms of the old notes. The new notes will not be subject to any restrictions on transfer, except in certain circumstances relating to broker-dealers described in this prospectus.

- o Avista Corp. will accept all notes that noteholders properly tender and do not withdraw before the expiration of the exchange offer.
- o You will not recognize any income, gain or loss for U.S. federal income tax purposes as a result of the exchange.
- o Like the old notes, the new notes will be unsecured.
- o The exchange offer is not conditioned on the tender of any minimum principal amount of old notes.
- o There will likely be no public market for the new notes.

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SEE "RISK FACTORS" BEGINNING ON PAGE 10 TO READ ABOUT CERTAIN FACTORS YOU SHOULD CONSIDER BEFORE MAKING ANY DECISION CONCERNING THIS EXCHANGE OFFER.

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The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

, 2001

The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to exchange these securities and it is not soliciting an offer to exchange these securities in any jurisdiction in which the offer or exchange is not permitted.

THIS PROSPECTUS INCORPORATES BY REFERENCE IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT AVISTA CORP. THAT IS NOT INCLUDED IN OR DELIVERED WITH THIS PROSPECTUS. SEE "WHERE YOU CAN FIND MORE INFORMATION". YOU MAY OBTAIN COPIES OF DOCUMENTS CONTAINING SUCH INFORMATION FROM US, WITHOUT CHARGE, BY EITHER CALLING OR WRITING TO US AT:

AVISTA CORPORATION  
1411 EAST MISSION AVENUE  
SPOKANE, WASHINGTON 99202-2600  
ATTENTION: TREASURER  
TELEPHONE: (509) 489-0500

IN ORDER TO OBTAIN TIMELY DELIVERY, YOU MUST REQUEST DOCUMENTS FROM US NO LATER THAN \_\_\_\_, 2001, WHICH IS FIVE DAYS BEFORE THE EXPIRATION DATE OF THE EXCHANGE OFFER ON \_\_\_\_, 2001.

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS OR IN THE LETTER OF TRANSMITTAL IN CONNECTION WITH THE EXCHANGE OFFER.

WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OTHER THAN THIS PROSPECTUS. YOU SHOULD NOT ASSUME THAT THE INFORMATION CONTAINED OR INCORPORATED IN THIS PROSPECTUS IS ACCURATE AS OF ANY DATE AFTER THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS IS NOT AN OFFER TO EXCHANGE THE NEW NOTES AND IT IS NOT SOLICITING AN OFFER TO EXCHANGE THE NEW NOTES IN ANY JURISDICTION IN WHICH THE EXCHANGE OFFER IS NOT PERMITTED.

## SUMMARY

This summary, which is presented solely to furnish limited introductory information regarding Avista Corporation (Avista Corp. or the Company), the exchange offer and the new notes, has been selected from the detailed information contained elsewhere in this prospectus (including the documents incorporated by reference). This summary does not contain all of the information that you should consider before making any investment decision. The terms "we", "us" and "our" refer to Avista Corp. and, when applicable, its subsidiaries. You should read the entire prospectus carefully.

### AVISTA CORPORATION

Avista Corp., which was incorporated in the State of Washington in 1889, is an electric and gas utility company having operations located in the Pacific Northwest. We also have subsidiaries involved in energy, information and technology businesses. As of March 31, 2001, our employees included approximately 1,460 people in our utility operations and approximately 800 people in our subsidiary businesses. Our corporate headquarters are in Spokane, Washington, which serves as the Inland Northwest's center for manufacturing, transportation, health care, education, communication, agricultural and service businesses.

Our operations are organized into four lines of business--Avista Utilities, Energy Trading and Marketing, Information and Technology, and Avista Ventures. Avista Utilities, which is an operating division of Avista Corp. and not a separate entity, represents the regulated utility operations. Avista Capital, a wholly-owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business.

### THE EXCHANGE OFFER

#### GENERAL

Avista Corp. is offering to exchange \$1,000 in principal amount of new notes for each \$1,000 in principal amount of old notes that noteholders properly tender and do not withdraw before the expiration date. Avista Corp. will issue the new notes on or promptly after the expiration date. There is \$400,000,000 in aggregate principal amount of old notes outstanding. See THE EXCHANGE OFFER.

#### EXPIRATION DATE

The exchange offer will expire at 5:00 p.m., New York City time, on , 2001 unless extended. If extended, the term "expiration date" will mean the latest date and time to which the exchange offer is extended. Avista Corp. will accept for exchange any and all old notes which are properly tendered in the exchange offer and not withdrawn before 5:00 p.m., New York City time, on the expiration date.

#### RESALE OF NEW NOTES

Based on interpretive letters written by the staff of the Securities and Exchange Commission to companies other than Avista Corp., Avista Corp. believes that, subject to certain exceptions, the new notes may generally be offered for resale, resold and otherwise transferred by any holder thereof, without compliance with the registration and prospectus delivery provisions of the Securities Act of 1933. However, any holder who is an "affiliate" of Avista Corp. within the meaning of Rule 405 under the Securities Act would have to comply with these provisions unless an exemption was available.

If Avista Corp.'s belief is inaccurate, holders of new notes who offer, resell or otherwise transfer new notes in violation of the Securities Act may incur liability under that Act. Avista Corp. will not assume or indemnify holders against this liability.

CONDITIONS TO THE EXCHANGE OFFER	<p>Avista Corp. may terminate the exchange offer before the expiration date if it determines that its ability to proceed with the exchange offer could be materially impaired due to</p> <ul style="list-style-type: none"> <li>o any legal or governmental action,</li> <li>o any new law, statute, rule or regulation, or</li> <li>o any interpretation by the staff of the SEC of any existing law, statute, rule or regulation.</li> </ul>
TENDER PROCEDURES - BENEFICIAL OWNERS	<p>If you wish to tender old notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you should contact the registered holder promptly and instruct the registered holder to tender on your behalf.</p> <p>IF YOU ARE A BENEFICIAL HOLDER, YOU SHOULD FOLLOW THE INSTRUCTIONS RECEIVED FROM YOUR BROKER OR NOMINEE WITH RESPECT TO TENDERING PROCEDURES AND CONTACT YOUR BROKER OR NOMINEE DIRECTLY.</p>
TENDER PROCEDURES - REGISTERED HOLDERS AND DTC PARTICIPANTS	<p>If you are a registered holder of old notes and you wish to participate in the exchange offer, you must complete, sign and date the letter of transmittal delivered with this prospectus, or a facsimile thereof. If you are a participant in The Depository Trust Company and you wish to participate in the exchange offer, you must instruct DTC to transmit to the exchange agent a message indicating that you agree to be bound by the terms of the letter of transmittal. You should mail or otherwise transmit the letter of transmittal or facsimile (or DTC message), together with your old notes (in book-entry form if you are a participant in DTC) and any other required documentation to Chase Manhattan Bank and Trust Company, National Association, as exchange agent.</p>
GUARANTEED DELIVERY PROCEDURES	<p>If you are a registered holder of old notes and you wish to tender them, but they are not immediately available or you cannot deliver them or the letter of transmittal to the exchange agent prior to the expiration date, you must tender your old notes according to special guaranteed delivery procedures. See THE EXCHANGE OFFER - "Procedures for Tendering - Registered Holders and DTC Participants - Registered Holders" on page 18.</p>
WITHDRAWAL RIGHTS	<p>You may withdraw tenders of old notes at any time before 5:00 p.m., New York City time, on the expiration date.</p>
CERTAIN FEDERAL INCOME TAX CONSIDERATIONS	<p>The exchange of new notes for old notes will not be a taxable event for U.S. federal income tax purposes. As a result, you will not recognize any income, gain or loss with respect to the exchange.</p>
EXCHANGE AGENT	<p>Chase Manhattan Bank and Trust Company, National Association is the exchange agent. Its telephone number is (800) 275-2048. Its address is 2001 Bryan Street, 9th Floor, Dallas, Texas 75201.</p>
THE NEW NOTES	
OFFERED SECURITIES	<p>\$400,000,000 principal amount of 9.75% Senior Notes due June 1, 2008</p>
MATURITY DATE	<p>June 1, 2008</p>
INTEREST PAYMENT DATES	<p>June 1 and December 1 of each year, beginning December 1, 2001</p>



These covenants are subject to significant exceptions. For more details, see DESCRIPTION OF THE NEW NOTES--"Certain Other Covenants."

USE OF PROCEEDS

The proceeds from the issuance and sale of the old notes are being used: (a) to pay short-term debt and maturing long-term debt of Avista Corp. issued to fund a portion of its construction, improvement and maintenance programs, (b) to reimburse Avista Corp.'s treasury for funds previously expended for any of these purposes and (c) for other corporate purposes.

RISK FACTORS

You should read DESCRIPTION OF THE NEW NOTES section, beginning on page 9 of this prospectus, so that you understand the risks associated with an investment in securities of Avista Corp.

SUMMARY CONSOLIDATED FINANCIAL DATA

We have selected the historical financial data shown below for the fiscal years 1996-2000 from the audited consolidated financial statements of Avista Corp. You should read this information along with the consolidated financial statements of Avista Corp. and the notes to those financial statements.

	YEARS ENDED DECEMBER 31,				
	1996	1997	1998	1999	2000
	(THOUSANDS OF DOLLARS EXCEPT RATIOS)				
<b>INCOME STATEMENT DATA:</b>					
Operating Revenues:					
Avista Utilities.....	\$ 798,994	\$ 891,665	\$ 1,049,212	\$ 1,115,647	\$ 1,512,101
Energy Trading and Marketing.....	--	247,028	2,408,734	6,695,671	6,531,551
Information and Technology.....	813	1,030	1,995	4,851	11,645
Avista Ventures.....	145,150	163,598	231,483	122,303	32,937
Intersegment eliminations.....	--	(1,149)	(7,440)	(33,488)	(176,744)
<b>Total.....</b>	<b>\$ 944,957</b>	<b>\$ 1,302,172</b>	<b>\$ 3,683,984</b>	<b>\$ 7,904,984</b>	<b>\$ 7,911,490</b>
Operating Income/(Loss) (pre-tax):					
Avista Utilities.....	\$ 173,658	\$ 178,289	\$ 143,153	\$ 142,567	\$ 3,177
Energy Trading and Marketing.....	(649)	6,577	22,826	(97,785)	250,196
Information and Technology.....	(1,443)	(5,364)	(5,192)	(13,002)	(40,084)
Avista Ventures.....	15,355	9,962	12,033	(423)	(9,861)
<b>Total.....</b>	<b>\$ 186,921</b>	<b>\$ 189,464</b>	<b>\$ 172,820</b>	<b>\$ 31,357</b>	<b>\$ 203,428</b>
Interest Expense .....	\$ 63,255	\$ 66,275	\$ 69,077	\$ 65,076	\$ 68,723
Income Before Income Taxes.....	132,962	175,872	121,474	42,771	165,140
Net Income.....	83,453	114,797	78,139	26,031	91,679
Preferred Stock Dividend Requirements.....	\$ 7,978	\$ 5,392	\$ 8,399(1)	\$ 21,392(1)	\$ 23,735(1)
Common Stock Dividend.....	\$ 69,390	\$ 69,390	\$ 56,898	\$ 18,301	\$ 22,616
<b>BALANCE SHEET DATA:</b>					
Utility Plant in Service--Net.....	\$ 1,951,664	\$ 2,031,026	\$ 2,095,301	\$ 2,184,698	\$ 2,205,230
Total Assets:					
Avista Utilities.....	\$ 1,921,429	\$ 1,926,739	\$ 2,004,935	\$ 1,976,716	\$ 2,129,614
Energy Trading and Marketing.....	320	212,868	955,615	1,595,470	10,271,834
Information and Technology.....	1,517	3,475	7,461	26,379	59,632
Avista Ventures.....	254,032	268,703	285,625	114,929	102,844
<b>Total.....</b>	<b>\$ 2,177,298</b>	<b>\$ 2,411,785</b>	<b>\$ 3,253,636</b>	<b>\$ 3,713,494</b>	<b>\$12,563,924</b>
Total Debt.....					
Company-Obligated Mandatorily Redeemable Preferred Trust Securities.....	--	\$ 110,000	\$ 110,000	\$ 110,000	\$ 100,000
Preferred Stock Subject to Mandatory Redemption....	\$ 65,000	\$ 45,000	\$ 35,000	\$ 35,000	\$ 35,000
Convertible Preferred Stock.....	--	--	\$ 269,227(1)	\$ 263,309	--
Stockholders' Equity.....	\$ 825,736	\$ 793,812	\$ 792,261	\$ 691,808	\$ 759,224
<b>OTHER FINANCIAL DATA:</b>					
Earnings Before Interest, Taxes, Depreciation and Amortization .....	\$ 268,314	\$ 312,040	\$ 261,098	\$ 184,321	\$ 309,804
Depreciation and Amortization.....	\$ 72,097	\$ 69,893	\$ 70,547	\$ 76,474	\$ 75,941
Capital Expenditures.....	\$ 99,182	\$ 91,160	\$ 106,270	\$ 115,609	\$ 201,433
Ratio of Earnings Before Interest, Taxes, Depreciation and Amortization to Fixed Charges (2).....	4.24	4.71	3.78	2.83	4.51
Ratio of Consolidated Earnings to Fixed Charges (3).....	2.97	3.49	2.66	1.61	3.26

(1) In December 1998, we converted shares of common stock for Convertible Preferred Stock, which was responsible for a number of changes in the data in 2000, 1999 and 1998 from 1997.

(2) "Earnings Before Interest, Taxes, Depreciation and Amortization", or EBITDA, represents net income before interest expense (including related amortization), taxes based on income, depreciation and amortization, to interest expense (including related amortization). EBITDA is commonly used to analyze companies on the basis of operating performance, leverage and liquidity. While EBITDA should not be construed as a substitute for operating income or a better measure of liquidity than cash flow from operating activities, which are determined in accordance with generally accepted accounting principles, we have presented EBITDA to provide additional information with respect to our ability to meet future debt service, capital expenditure and working capital requirements. EBITDA is not a measure determined under generally accepted accounting principles.



Also, as calculated above, EBITDA may not be comparable to similarly titled measures reported by other companies. "Fixed Charges" include interest (whether or not capitalized) and related amortization.

- (3) "Earnings," as defined by Regulation S-K, represent the aggregate of (1) net income before the cumulative effect of an accounting change, (2) taxes based on income, (3) investment tax credit adjustments--net and (4) fixed charges. "Fixed Charges" include interest (whether expensed or capitalized), related amortization and estimated interest applicable to rentals.

## RISK FACTORS

You should carefully consider the following factors in addition to the other information in this prospectus.

WE WILL NEED TO FINANCE OUR OPERATIONS AND CAPITAL EXPENDITURES. OUR LEVEL OF INDEBTEDNESS COULD AFFECT OUR ABILITY TO DEDICATE SUFFICIENT CASH FLOW TO THESE PURPOSES, WHICH WOULD ULTIMATELY AFFECT OUR ABILITY TO MEET OUR OBLIGATIONS ON THE NEW NOTES.

We have incurred significant long-term indebtedness to support capital expenditures and to maintain working capital. At April 30, 2001, after giving effect to the issuance of the old notes, we had, total long-term debt of approximately \$1,079.5 million. In addition, we will need to finance capital expenditures and obtain additional working capital from time to time. The cash requirements to service the total amount of our indebtedness, both short-term and long-term, could reduce the amount of cash flow available to fund working capital, future acquisitions, the deferral accounts discussed below, other corporate requirements and capital expenditures.

IF WE ARE UNABLE TO RECOVER DEFERRED PURCHASED POWER AND, TO A LESSER EXTENT, NATURAL GAS COSTS EXCEEDING AMOUNTS INCLUDED IN CURRENT RETAIL RATES, WE MAY EXPERIENCE AN ADVERSE IMPACT ON CASH FLOW AND EARNINGS.

Purchased power and natural gas costs incurred to serve our retail customers are generally recovered or expected to be recovered in base rates. However, there is a lag between the time we incur any increases in these costs and the time we collect these increases from customers. As more fully described in Note 1 of Notes to Financial Statements--"Power Cost Deferrals and Power and Natural Gas Adjustment Provisions" in Avista Corp.'s Annual Report on Form 10-K for the year 2000, costs in excess of those included in base rates are deferred as an asset on our balance sheet and not shown as an expense until recovered from our retail customers.

In 2000 the price of electric energy in western wholesale markets rose to unprecedented levels, accompanied by increases in natural gas prices, in both cases far above the levels included in base rates. These market conditions are expected to continue in 2001.

We have mechanisms in place to recover (subject to certain limitations) increases in gas costs in Washington, Idaho and Oregon, and we regularly make filings to recover increased costs under these mechanisms. As of March 31, 2001, we had balances of deferred gas costs totaling \$79.3 million. We also have a mechanism in place to recover (subject to certain limitations) increases in purchased power costs in Idaho and had a balance of deferred purchased power costs in Idaho of \$5.2 million, a power cost rebate of \$0.9 million which is being flowed through to customers, and a surcharge deferral balance of \$6.8 million, as of March 31, 2001. On March 23, 2001, we filed an application in Washington to establish the prudence of the purchased power costs incurred as well as for approval of a method to recover the cost increases. As of March 31, 2001, we had a balance of deferred purchased power costs of \$56 million plus accrued interest of \$0.7 million in Washington. We will be able to recover these balances of deferred costs only in the amounts, and at the times, authorized by the respective state commissions. As discussed in "Recent Developments", on May 23, 2001, the Washington public utility commission approved a settlement agreement reached among Avista Corp., the staff of that commission and other parties.

RECENT CHANGES IN THE ENERGY MARKETS IN THE WESTERN UNITED STATES HAVE LED TO SIGNIFICANT INCREASES IN WHOLESALE POWER PRICES. BECAUSE OF THESE HIGH PRICE LEVELS, A DECREASE IN OUR POWER RESOURCE AVAILABILITY OR AN INCREASE IN CUSTOMER DEMAND THAT REQUIRES US TO PURCHASE MORE POWER COULD HAVE AN ADVERSE IMPACT ON OUR CASH FLOW AND EARNINGS.

Wholesale power prices rose dramatically starting in the second quarter of 2000 and remain significantly above historic levels in the Pacific Northwest, including our service territory, and throughout the western United States. Significant emerging factors include the gradual depletion of excess generating capacity in the West, increasing instances of transmission congestion and increased ownership of generating facilities by entities which are not traditional "public utilities." Also, wholesale power markets have been affected by the restructuring of electric utility regulation at both state and federal levels.

Federal and state officials, including the Federal Energy Regulatory Commission, the California Public Utility Commission and the Attorneys General of California, Oregon and Washington, have commenced reviews to determine the causes of the changes in the wholesale energy markets.

Under normal water conditions and customer demand, we would be able to provide almost all of our forecasted native load energy requirements with our own generation plants and long-term contracts until the end of 2003, with the balance covered through short-term contracts. However, current forecasts show streamflow conditions for hydroelectric generation for 2001 at no better than 60% of normal. In response to the reduced hydroelectric generation, we have made additional fixed price purchases of energy to cover our retail and firm wholesale load requirements for 2001 with additional purchases from the higher cost short-term wholesale market. If hydroelectric conditions further deteriorate, or our generating plants do not operate as planned, or weather conditions cause retail loads to increase, we would incur additional costs from increased purchases in the higher cost short-term wholesale energy market. This would have an adverse impact on our cash flow and, if not ultimately recovered, on our earnings.

WE ARE SUBJECT TO THE RISKS INHERENT IN THE UTILITY BUSINESS, INCLUDING NORMAL OPERATING RISKS, SUCH AS THE COST OF FUEL AND THE POSSIBILITY OF PLANT OUTAGES, AND, IN OUR CASE, THE SUFFICIENCY OF STREAMFLOWS. WE ARE ALSO SUBJECT TO REGULATORY RISKS, SUCH AS INCREASED ENVIRONMENTAL REGULATION AND THE CHALLENGE TO OBTAIN SATISFACTORY RATE RELIEF, AS WELL AS TO RISKS ASSOCIATED WITH DEREGULATION OF ENERGY MARKETS.

The utility business involves many operating risks. For example, there may be a breakdown or failure of electrical generating or other equipment, fuel interruption or performance below expected levels of output or efficiency. Also, some of our facilities use natural gas and coal in their generation of electricity. The market prices and availability of natural gas and coal fluctuate. Increasing prices for these commodities or a lack of availability could impair our cash flow and, if not ultimately recovered, on our earnings. In addition, our hydroelectric plants require continuous water flow for their operation. A drought or other water flow impairment may limit our ability to produce and market electricity from these facilities.

In addition, the utility business is subject to complex and stringent energy, environmental, and other governmental laws and regulations. The acquisition, ownership and operation of power generation facilities requires numerous permits, approvals, and certificates from appropriate federal, state, and local governmental agencies. If environmental regulations, such as emission limits, are tightened, this could increase the amount we must invest to bring our facilities into compliance. In general, the prices we are allowed to charge for our electric and natural gas services are intended to provide, after recovery of allowable operating expenses, an opportunity to earn a reasonable rate of return. The regulatory commissions of the states in which we operate may limit our ability to increase prices, and future changes in the regulatory framework may also affect our ability to earn a reasonable rate of return.

More recently, wholesale power markets have been affected by the restructuring of electric utility regulation at both federal and state levels. In particular, deregulation in California, combined with increased demand and limitations on supply, has affected wholesale power prices throughout the West. In addition, although there is currently no legislative or regulatory movement toward deregulation in Washington or Idaho, in a deregulated environment, evolving technologies might provide alternate energy supplies at lower costs, leading to lower adjusted market prices and reducing margins for traditional utilities that use technologies and generating assets with capital and operating costs higher than the lower adjusted market price.

WE ARE SUBJECT TO THE FINANCIAL, LIQUIDITY, CREDIT AND COMMODITY PRICE RISKS ASSOCIATED WITH ENERGY TRADING AND MARKETING ACTIVITIES.

Our subsidiary, Avista Energy, trades electricity and natural gas, along with derivative commodity instruments, including futures, options, swaps and other contractual arrangements. Most transactions are conducted on a largely unregulated "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). As a result of these trading activities, we are subject to various risks, including market risk, liquidity risk, commodity risk and credit risk. Although Avista Energy scaled back operations to focus primarily in the western United States during 2000, its trading operations continue to be affected by, among other things, volatility of prices within the electric energy and natural gas

markets, the demand for and availability of energy, lower unit margins on new sales contracts and deregulation of the electric utility industry.

Avista Energy is renegotiating its credit agreement with its primary lending banks which expired on May 31, 2001. Avista Energy anticipates receiving an extension to June 30, 2001 of its existing credit agreement and anticipates the completion of documentation and closing of a new credit agreement by the end of June 2001. The existing agreement contains a variety of covenants and restrictions, including restrictions on dividends.

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

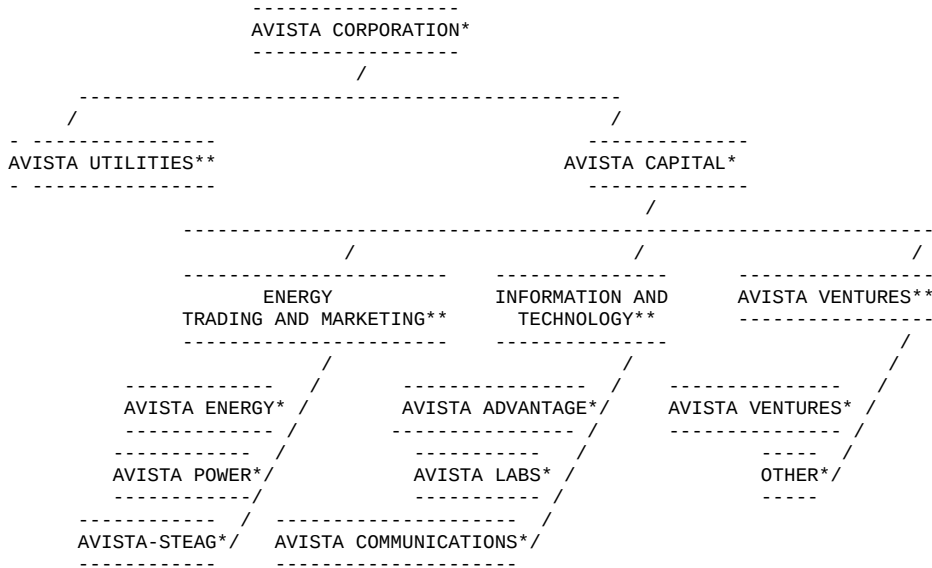
AVISTA CORPORATION

GENERAL

Avista Corp., which was incorporated in the State of Washington in 1889, is an electric and gas utility company having operations located in the Pacific Northwest. We also have subsidiaries involved in energy, information and technology businesses. As of March 31, 2001, our employees included approximately 1,460 people in our utility operations and approximately 800 people in our subsidiary businesses. Our corporate headquarters are in Spokane, Washington, which serves as the Inland Northwest's center for manufacturing, transportation, health care, education, communication, agricultural and service businesses.

Our operations are organized into four lines of business--Avista Utilities, Energy Trading and Marketing, Information and Technology, and Avista Ventures. Avista Utilities, which is an operating division of Avista Corp. and not a separate entity, represents the regulated utility operations. Avista Capital, a wholly owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business.

Avista Corp.'s lines of business, and the companies included within them, are illustrated below:



\* - denotes a business entity.  
 \*\* - denotes an operating division or line of business

## ENERGY BUSINESSES

Avista Utilities 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 835,000. It also provides natural gas distribution 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 500,000. At the end of 2000, retail electric service was supplied to approximately 313,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 279,000 customers in parts of Washington, Idaho, Oregon and California. Our retail customers include residential, commercial and industrial classifications, with the residential classification accounting for the most energy consumed and the greatest contribution to revenues. Avista Utilities also engages in wholesale sales and purchases of electric capacity and energy.

In addition to providing electric transmission and distribution services, Avista Utilities is responsible for electric generation and production. Avista Utilities owns and operates eight hydroelectric projects, a wood-waste fueled generating station and two natural gas-fired combustion turbine (CT) generating units. It also owns a 15% share in a two-unit coal-fired generating facility and leases and operates two additional natural gas-fired CT generating units. These facilities have a total net capability of approximately 1,470 megawatts, of which 65% is hydroelectric and 35% is thermal. In addition, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources.

Under normal water conditions and loads, Avista Utilities' own generation plants and long-term contracts would be able to provide approximately 90% of its forecasted native load energy requirements in 2001, and 100% thereof in 2002 and 2003. The balance would be covered through short-term contracts. Avista Utilities has covered essentially all of its electric energy requirements in the forward markets for 2001. For a discussion of current water conditions, see RISK FACTORS.

Avista Utilities anticipates residential and commercial electric load growth to average approximately 2.6% annually for the next five years primarily due to expected 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. Avista Utilities expects 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 3.4% growth annually during that same period. The natural gas load growth is primarily due to expected conversions from electric space and water heating to natural gas, and increases in both population and the number of businesses in its service territories. These electric and natural gas load growth projections are based on purchased economic forecasts, publicly available studies, and internal analysis of company-specific data, such as energy consumption patterns and internal business plans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Future Outlook" in Avista Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 and its Current Report on Form 10-Q for the quarter ended March 31, 2001 for additional information.

Energy Trading and Marketing is comprised of Avista Energy, Inc., Avista Power, Inc. and Avista STEAG, LLC. Avista Energy is an electricity and natural gas trading and marketing business. Avista Power was formed to develop, purchase and own electric generation assets. Avista STEAG is a joint venture between Avista Capital and STEAG AG, a German independent power producer, to develop electric generating assets. On April 27, 2001, Avista Capital gave notice to STEAG AG, electing to terminate the Avista STEAG venture pursuant to its terms. Avista Capital and STEAG AG are now preparing for an orderly winding up and termination of Avista STEAG. Avista Energy, Avista Power and Avista STEAG all operate primarily in the Western Systems Coordinating Council ("WSCC"), which is comprised of the eleven western states.

Avista Energy is in the business of buying and selling electricity and natural gas. Avista Energy's customers include commercial and industrial end-users, electric utilities, natural gas distribution companies and other trading companies. Avista Energy also trades electricity and natural gas derivative commodity instruments.

Avista Power has electric generation projects under development and construction in strategic locations primarily in the WSCC. 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 states of Washington, Oregon and Idaho. A project under this agreement is the 270 megawatt

facility located in Rathdrum, Idaho, with 100% of its output contracted to Avista Energy for 25 years. Non-recourse project financing was completed in March 2000 and the facility is currently under construction, with commercial operation expected to start in late 2001.

In December 2000, Avista Utilities selected the Coyote Springs 2 project, a 280-megawatt combined-cycle natural gas-fired plant near Boardman, Oregon to add generation to its portfolio. Construction commenced in January 2001 under a fixed price turnkey engineering, procurement and construction contract with project completion anticipated in mid-2002. The process is underway to transfer ownership from Avista Power to Avista Utilities. Avista Corp. is currently negotiating bank financing for the construction of this project. A portion of the proceeds of the notes may be used to finance construction costs.

#### OTHER BUSINESSES

Information and Technology is comprised of Avista Advantage, Inc., Avista Laboratories, Inc. and Avista Communications, Inc.

- o Avista Advantage is an e-commerce provider of facilities management billing and information services to commercial customers throughout the U.S. and Canada. Its primary product lines include consolidated billing, resource accounting, energy analysis, load profiling and maintenance and repair billing services.
- o Avista Labs is in the process of developing both modular Proton Exchange Membrane fuel cells for power generation at the site of the consumer or industrial user and fuel cell components.
- o Avista Communications is an Integrated Communications Provider providing local dial tone, data transport, internet services, voice messaging and other telecommunications services to under-served communities primarily in ten Northwest markets. Avista Communications is also involved in designing, building and managing metropolitan area fiber optic networks.

Avista Ventures includes Avista Ventures, Inc. and several other minor subsidiaries. Avista Ventures was formed to align Avista Corp.'s investment and acquisition activities in the strategic growth areas of energy, information and technology. In addition, Avista Ventures hold investments in real estate and majority ownership of AM&D, a metals fabrication and manufacturing business.

#### BUSINESS STRATEGY

Avista Corp.'s general business strategy is to:

- o maintain a strong, low-cost utility business focused on delivering efficient, reliable and high quality service to its customers;
- o reduce the size and risk associated with its energy trading activities;
- o pursue opportunities to develop new generation to support the growing power requirements in the Northwest; and
- o have access to electric and natural gas resources, both owned and under long-term contract, in excess of projected requirements.

#### RECENT DEVELOPMENTS

On May 23, 2001, the Washington Utilities and Transportation Commission (the "WUTC") approved a settlement agreement which had been reached among Avista Corp., the staff of the WUTC and other parties with respect to deferred energy costs. The agreement, among other things, provides for the extension of Avista Corp.'s deferral accounting mechanism through February 2003. Due to the planned addition of generating resources as well as the expiration of certain long-term power sale agreements, Avista Utilities expects to be in a power surplus

position by July 2002. Avista Utilities further expects the profits from surplus power sales to offset the power cost deferral balance, reducing the balance to zero by the end of February 2003 without any price increase to retail customers. These expectations are based on assumptions as to a number of variables including, but not limited to, streamflow conditions, thermal plan performance, level of retail loads, wholesale market prices and the amount of additional generating resources. Avista Utilities has reserved the right to request an immediate rate surcharge to recover the deferral balance if circumstances change. See RISK FACTORS.

On May 31, 2001 the Company renewed its committed line of credit and repaid all outstanding borrowings under that facility. The new \$220 million credit facility expires on May 29, 2002. As of May 31, 2001, there were no amounts borrowed under this committed line of credit.

The Company is in the process of obtaining a construction loan to finance \$120 million of the construction costs for the Coyote Springs 2 project with a term that matches the construction period. A term sheet has been signed with two co-lenders to fully underwrite such construction loan. The Company currently anticipates the completion of the documentation and closing by the end of June 2001.

#### CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2001, as well as our consolidated cash balance and short-term debt (including the current portion of long-term debt). The following data are qualified in their entirety by our financial statements and other information incorporated by reference into this prospectus. The "As Adjusted" column reflects our receipt of proceeds of \$388.3 million from the issuance and sale of the Old Notes (after discounts and commissions and estimated offering and exchange offering expenses) and the application of \$278.4 million of the net proceeds to the payment of short-term debt (including the current portion of long-term debt).

	AS OF MARCH 31, 2001	
	ACTUAL	AS ADJUSTED
	-----	-----
	(THOUSANDS OF DOLLARS)	
	-----	-----
Cash and Cash Equivalents.....	\$ 205,185	\$ 315,140
Short-Term Debt (including current portion of long-term debt).....	\$ 278,379	---
Long-Term Debt.....	\$ 679,479	\$1,079,479
Company-Obligated Mandatorily Redeemable Preferred Trust Securities.....	100,000	100,000
Preferred Stock.....	35,000	35,000
Total Common Equity.....	750,344	750,344
	-----	-----
Total Capitalization.....	\$1,564,823	\$1,964,823

#### USE OF PROCEEDS

The proceeds from the issuance and sale of the old notes are being used: (a) to pay short-term debt and maturing long-term debt of Avista Corp. issued to fund a portion of its construction, improvement and maintenance programs, (b) to reimburse Avista Corp.'s treasury for funds previously expended for any of these purposes and (c) for other corporate purposes.

## THE EXCHANGE OFFER

### PURPOSE AND EFFECT OF THE EXCHANGE OFFER

Avista Corp. is offering to issue its 9.75% Senior Notes Due June 1, 2008, which have been registered under the Securities Act (the "New Notes"), in exchange for its 9.75% Senior Notes Due June 1, 2008, which have not been so registered (the "Old Notes"), as described herein (the "Exchange Offer").

The Old Notes were sold by Goldman, Sachs & Co. (the "Initial Purchaser") on April 3, 2001 to a limited number of institutional investors (the "Purchasers"). In connection with the sale of the Old Notes, Avista Corp. and the Initial Purchaser entered into an Exchange and Registration Rights Agreement, dated April 3, 2001 (the "Registration Rights Agreement"), which requires, among other things, Avista Corp.

(a) to file with the Securities and Exchange Commission (the "SEC") a registration statement under the Securities Act of 1933, as amended (the "Securities Act") with respect to New Notes identical in all material respects to the Old Notes, to use commercially reasonable efforts to cause such registration statement to be declared effective under the Securities Act and to make an exchange offer for the Old Notes as discussed below, or

(b) to register the Old Notes under the Securities Act.

Avista Corp. is obligated, upon the effectiveness of the exchange offer registration statement referred to in (a) above, to offer the holders of the Old Notes the opportunity to exchange their Old Notes for a like principal amount of New Notes which will be issued without a restrictive legend and may be reoffered and resold by the holder without restrictions or limitations under the Securities Act. A copy of the Registration Rights Agreement has been filed as an exhibit to the Registration Statement of which this prospectus is a part. The Exchange Offer is being made pursuant to the Registration Rights Agreement to satisfy Avista Corp.'s obligations under that agreement. The term "Holder" with respect to the Exchange Offer means any person in whose name Old Notes are registered on Avista Corp.'s books, any other person who has obtained a properly completed assignment from the registered holder or any DTC participant whose Old Notes are held of record by DTC. At the date of this prospectus, the sole Holder of Old Notes is DTC.

In participating in the Exchange Offer, a Holder is deemed to represent to Avista Corp., among other things, that

(a) the New Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the person receiving such New Notes, whether or not such person is the Holder,

(b) neither the Holder nor any such other person receiving such new notes is engaging in or intends to engage in a distribution of such New Notes,

(c) neither the Holder nor any such other person receiving such new notes has an arrangement or understanding with any person to participate in the distribution of such New Notes, and

(d) neither the Holder nor any such other person receiving such new notes is an "affiliate," as defined in Rule 405 under the Securities Act, of Avista Corp.

Based on an interpretation by the staff of the SEC set forth in no-action letters issued to third-parties, Avista Corp. believes that the New Notes issued pursuant to the Exchange Offer may be offered for resale and resold or otherwise transferred by any Holder of such New Notes (other than any such Holder which is an "affiliate" of Avista Corp. within the meaning of Rule 405 under the Securities Act and except as otherwise discussed below with respect to Holders which are broker-dealers) without compliance with the registration and prospectus delivery requirements of the Securities Act, so long as such New Notes are acquired in the ordinary course of such Holder's business and such Holder has no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of such New Notes. Any Holder who tenders in the Exchange Offer for the purpose of participating in a



distribution of the New Notes cannot rely on such interpretation by the staff of the SEC and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. Under no circumstances may this prospectus be used for any offer to resell or any resale or other transfer in connection with a distribution of the New Notes. In the event that Avista Corp.'s belief is not correct, Holders of the New Notes who transfer New Notes in violation of the prospectus delivery provisions of the Securities Act and without an exemption from registration thereunder may incur liability thereunder. Avista Corp. does not assume or indemnify Holders against such liability.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes which were acquired by such broker-dealer as a result of market-making activities or other trading activities must, and must agree to, deliver a prospectus in connection with any resale of such New Notes. This prospectus may be used for such purpose. Any such broker-dealer may be deemed to be an "underwriter" within the meaning of the Securities Act. The foregoing interpretation of the staff of the SEC does not apply to, and this prospectus may not be used in connection with, the resale by any broker-dealer of any New Notes received in exchange for an unsold allotment of Old Notes purchased directly from Avista Corp.

Avista Corp. has not entered into any arrangement or understanding with any person to distribute the New Notes to be received in the Exchange Offer.

The Exchange Offer is not being made to, nor will Avista Corp. accept tenders for exchange from, Holders of Old Notes in any jurisdiction in which the Exchange Offer or the acceptance thereof would not be in compliance with the securities or blue sky laws of such jurisdiction.

See PLAN OF DISTRIBUTION.

#### TERMS OF THE EXCHANGE OFFER

Upon the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal, Avista Corp. will accept any and all Old Notes properly tendered and not withdrawn prior to 5:00 p.m., New York City time, on the Expiration Date. Avista Corp. will issue \$1,000 in principal amount of New Notes in exchange for each \$1,000 in principal amount of outstanding Old Notes surrendered in the Exchange Offer. However, Old Notes may be tendered only in integral multiples of \$1,000.

The form and terms of the New Notes will be the same as the form and terms of the Old Notes. The New Notes will evidence the same debt as the Old Notes. The New Notes will be issued under and entitled to the benefits of the Indenture pursuant to which the Old Notes were issued. The New Notes will be registered under the Securities Act while the Old Notes were not.

As of the date of this prospectus, \$400,000,000 in aggregate principal amount of the Old Notes is outstanding. This prospectus, together with the letter of transmittal, is being sent to all registered Holders of the Old Notes.

Avista Corp. will be deemed to have accepted validly tendered Old Notes when, as and if Avista Corp. shall have given oral (promptly confirmed in writing) or written notice thereof to the Exchange Agent. The Exchange Agent will act as agent for the tendering Holders for the purpose of receiving the New Notes from Avista Corp.

Old Notes that are not tendered for exchange in the Exchange Offer will remain outstanding and will be entitled to the rights and benefits such Holders have under the Indenture. If any tendered Old Notes are not accepted for exchange because of an invalid tender, the occurrence of certain other events set forth herein or otherwise, certificates for any such unaccepted Old Notes will be returned, without expense, to the tendering Holder thereof as promptly as practicable after the Expiration Date.

Holders who tender Old Notes in the Exchange Offer will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange pursuant to the

Exchange Offer. Avista Corp. will pay all charges and expenses, other than certain applicable taxes described below, in connection with the Exchange Offer.

#### EXPIRATION DATE; EXTENSIONS; AMENDMENTS TO THE EXCHANGE OFFER

The term "Expiration Date," shall mean 5:00 p.m., New York City time on , 2001, unless Avista Corp., in its sole discretion, extends the Exchange Offer, in which case the term "Expiration Date" shall mean the latest date and time to which the Exchange Offer is extended.

In order to extend the Exchange Offer, Avista Corp. will notify the Exchange Agent of any extension by oral (promptly confirmed in writing) or written notice and will mail to the registered Holders an announcement thereof, prior to 9:00 a.m., New York City time, on the next business day after the then Expiration Date.

Avista Corp. reserves the right, in its sole discretion,

(a) to delay accepting any Old Notes, to extend the Exchange Offer or to terminate the Exchange Offer if any of the conditions set forth below under "--Conditions to the Exchange Offer" shall not have been satisfied by giving oral (promptly confirmed in writing) or written notice of such delay, extension or termination to the Exchange Agent or

(b) to amend the terms of the Exchange Offer in any manner.

Any such delay in acceptances, extension, termination or amendment will be followed as promptly as practicable by oral or written notice thereof to the registered Holders. If the Exchange Offer is amended in a manner determined by Avista Corp. to constitute a material change, Avista Corp. will promptly disclose such amendment by means of a prospectus supplement that will be distributed to the registered Holders of the Old Notes, and Avista Corp. will extend the Exchange Offer for a period of five to ten business days, depending upon the significance of the amendment and the manner of disclosure to the registered Holders, if the Exchange Offer would otherwise expire during such five to ten business day period.

Without limiting the manner in which Avista Corp. may choose to make a public announcement of any delay, extension, amendment or termination of the Exchange Offer, Avista Corp. will have no obligation to publish, advertise, or otherwise communicate any such public announcement, other than by making a timely release to an appropriate news agency.

Upon satisfaction or waiver of all the conditions to the Exchange Offer, Avista Corp. will accept, promptly after the Expiration Date, all Old Notes properly tendered and will issue the New Notes promptly after acceptance of the Old Notes. See "--Conditions to the Exchange Offer." For purposes of the Exchange Offer, Avista Corp. will be deemed to have accepted properly tendered Old Notes for exchange when, as and if Avista Corp. shall have given oral (promptly confirmed in writing) or written notice thereof to the Exchange Agent.

In all cases, issuance of the New Notes for Old Notes that are accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of a properly completed and duly executed letter of transmittal (or facsimile thereof or an Agent's message in lieu thereof) and all other required documents; provided, however, that Avista Corp. reserves the absolute right to waive any defects or irregularities in the tender or conditions of the Exchange Offer. If any tendered Old Notes are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if Old Notes are submitted for a greater principal amount or a greater principal amount, respectively, than the Holder desires to exchange, then such unaccepted or non-exchanged Old Notes evidencing the unaccepted portion, as appropriate, will be returned without expense to the tendering Holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.

## CONDITIONS TO THE EXCHANGE OFFER

Notwithstanding any other term of the Exchange Offer, Avista Corp. will not be required to exchange any New Notes for any Old Notes and may terminate the Exchange Offer before the acceptance of any Old Notes for exchange, if:

(a) any action or proceeding is instituted or threatened in any court or by or before any governmental agency with respect to the Exchange Offer which, in Avista Corp.'s reasonable judgment, might materially impair the ability of Avista Corp. to proceed with the Exchange Offer; or

(b) any law, statute, rule or regulation is proposed, adopted or enacted, or any existing law, statute, rule or regulation is interpreted by the staff of the SEC, which, in Avista Corp.'s reasonable judgment, might materially impair the ability of Avista Corp. to proceed with the Exchange Offer.

If Avista Corp. determines in its sole discretion that any of these conditions are not satisfied, Avista Corp. may

(c) refuse to accept any Old Notes and return all tendered Old Notes to the tendering Holders,

(d) extend the Exchange Offer and retain all Old Notes tendered prior to the expiration of the Exchange Offer, subject, however, to the rights of Holders who tendered such Old Notes to withdraw their tendered Old Notes, or

(e) waive such unsatisfied conditions with respect to the Exchange Offer and accept all properly tendered Old Notes which have not been withdrawn. If such waiver constitutes a material change to the Exchange Offer, Avista Corp. will promptly disclose such waiver by means of a prospectus supplement that will be distributed to the registered Holders, and Avista Corp. will extend the Exchange Offer for a period of five to ten business days, depending upon the significance of the waiver and the manner of disclosure to the registered Holders, if the Exchange Offer would otherwise expire during such five to ten business day period.

## PROCEDURES FOR TENDERING--REGISTERED HOLDERS AND DTC PARTICIPANTS

REGISTERED HOLDERS OF OLD NOTES, AS WELL AS BENEFICIAL OWNERS WHO ARE DIRECT PARTICIPANTS IN DTC, WHO DESIRE TO PARTICIPATE IN THE EXCHANGE OFFER SHOULD FOLLOW THE DIRECTIONS SET FORTH BELOW AND IN THE LETTER OF TRANSMITTAL.

ALL OTHER BENEFICIAL OWNERS SHOULD FOLLOW THE INSTRUCTIONS RECEIVED FROM THEIR BROKER OR NOMINEE AND SHOULD CONTACT THEIR BROKER OR NOMINEE DIRECTLY. THE INSTRUCTIONS SET FORTH BELOW AND IN THE LETTER OF TRANSMITTAL DO NOT APPLY TO SUCH BENEFICIAL OWNERS.

### Registered Holders

To tender in the Exchange Offer, a Holder must complete, sign and date the letter of transmittal, or facsimile thereof, have the signatures thereon guaranteed if required by the letter of transmittal, and mail or otherwise deliver such letter of transmittal or such facsimile to the Exchange Agent prior to the Expiration Date. In addition, either

(a) certificates for such Old Notes must be received by the Exchange Agent along with the letter of transmittal, or

(b) the Holder must comply with the guaranteed delivery procedures described below.

To be tendered effectively, the letter of transmittal and other required documents must be received by the Exchange Agent at the address set forth below under "--Exchange Agent" prior to the Expiration Date.

The tender by a Holder which is not withdrawn prior to the Expiration Date will constitute an agreement between such Holder and Avista Corp. in accordance with the terms and subject to the conditions set forth herein and in the letter of transmittal.

THE METHOD OF DELIVERY OF OLD NOTES, THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS TO THE EXCHANGE AGENT IS AT THE ELECTION AND RISK OF THE HOLDER, BUT THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED OR CONFIRMED BY THE EXCHANGE AGENT. INSTEAD OF DELIVERY BY MAIL, IT IS RECOMMENDED THAT HOLDERS USE AN OVERNIGHT OR HAND DELIVERY SERVICE. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY TO THE EXCHANGE AGENT BEFORE THE EXPIRATION DATE. NO LETTER OF TRANSMITTAL OR OLD NOTES SHOULD BE SENT TO AVISTA CORP. HOLDERS MAY REQUEST THEIR RESPECTIVE BROKERS, DEALERS, COMMERCIAL BANKS, TRUST COMPANIES OR NOMINEES TO EFFECT THE ABOVE TRANSACTIONS FOR SUCH HOLDERS.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by an Eligible Institution (as defined below) unless the Old Notes tendered pursuant thereto is tendered

(a) by a registered Holder who has not completed the box entitled "Special Payment Instructions" or "Special Delivery Instructions" on the letter of transmittal or

(b) for the account of an Eligible Institution (as defined below).

In the event that signatures on a letter of transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantor must be a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an "eligible guarantor institution" within the meaning of Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (an "Eligible Institution").

If the letter of transmittal is signed by a person other than the registered Holder of any Old Notes listed therein, such Old Notes must be endorsed or accompanied by a properly completed bond power signed by such registered Holder as such registered Holder's name appears on such Old Notes.

If the letter of transmittal or any Old Notes or bond or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by Avista Corp., evidence satisfactory to Avista Corp. of their authority to so act must be submitted with the letter of transmittal.

Holders who wish to tender their Old Notes and

(a) whose Old Notes are not immediately available,

(b) who cannot deliver their Old Notes, the letter of transmittal or any other required documents to the Exchange Agent prior to the Expiration Date, or

(c) who cannot complete the procedures for book-entry tender on a timely basis

may effect a tender if:

(1) the tender is made through an Eligible Institution;

(2) prior to the Expiration Date, the Exchange Agent receives from such Eligible Institution a properly completed and duly executed Notice of Guaranteed Delivery (by facsimile transmission, mail or hand delivery), setting forth the name and address of the Holder, the certificate number(s) of such Old Notes (unless tender is to be made

by book-entry transfer) and the principal amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that, within five New York Stock Exchange trading days after the date of delivery of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes, in proper form for transfer, or Book-Entry Confirmation (as defined in the letter of transmittal), as the case may be, together with a properly completed and duly executed letter of transmittal (or facsimile thereof or Agent's Message in lieu thereof), with any required signature guarantees and all other documents required by the letter of transmittal, will be deposited by the Eligible Institution with the Exchange Agent; and

(3) the certificates and/or other documents referred to in clause (2) above must be received by the Exchange Agent within the time specified above.

Upon request to the Exchange Agent a Notice of Guaranteed Delivery will be sent to Holders who wish to tender their Old Notes according to the guaranteed delivery procedures set forth above.

#### DTC Participants

Any financial institution that is a participant in DTC's systems may make book-entry delivery of Old Notes by causing DTC to transfer such Old Notes into the Exchange Agent's account at DTC in accordance with DTC's procedures for transfer. Such delivery must be accompanied by either

(a) the letter of transmittal or facsimile thereof, with any required signature guarantees or

(b) an Agent's Message (as hereinafter defined),

and any other required documents, and must, in any case, be transmitted to and received by the Exchange Agent at the address set forth below under "--Exchange Agent" prior to the Expiration Date or the guaranteed delivery procedures described above must be complied with. The Exchange Agent will make a request to establish an account with respect to the Old Notes at DTC for purposes of the Exchange Offer within two business days after the date of this prospectus.

The term "Agent's Message" means a message, electronically transmitted by DTC to and received by the Exchange Agent, and forming a part of the Book-Entry Confirmation, which states that DTC has received an express acknowledgement from a Holder of Old Notes stating that such Holder has received and agrees to be bound by, and makes each of the representations and warranties contained in, the Letter of Transmittal and, further, that such Holder agrees that the Company may enforce the Letter of Transmittal against such Holder.

#### Miscellaneous

All questions as to the validity, form, eligibility (including time of receipt), acceptance of tendered Old Notes and withdrawal of tendered Old Notes will be determined by Avista Corp. in its sole discretion, which determination will be final and binding. Avista Corp. reserves the absolute right to reject any and all Old Notes not properly tendered or any Old Notes Avista Corp.'s acceptance of which would, in the opinion of counsel for Avista Corp., be unlawful. Avista Corp. also reserves the right to waive any defects, irregularities or conditions of tender as to particular Old Notes. Avista Corp.'s interpretation of the terms and conditions of the Exchange Offer (including the instructions in the letter of transmittal) will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes must be cured within such time as Avista Corp. shall determine. Although Avista Corp. intends to notify Holders of defects or irregularities with respect to tenders of Old Notes, none of Avista Corp., the Exchange Agent, or any other person shall incur any liability for failure to give such notification. Tenderees of Old Notes will not be deemed to have been made until such defects or irregularities have been cured or waived. Any Old Notes received by the Exchange Agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be

returned by the Exchange Agent to the tendering Holders, unless otherwise provided in the letter of transmittal, as soon as practicable following the Expiration Date.

By tendering, each Holder or the Person receiving the New Notes, as the case may be will be deemed to represent to Avista Corp. that, among other things,

- o the New Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the Person receiving such New Notes, whether or not such person is the Holder,
- o neither the Holder nor any such other person is engaged or intends to engage in, or has an arrangement or understanding with any person to participate in, the distribution of such New Notes, and
- o neither the Holder nor any such other Person is an "affiliate," as defined in Rule 405 of the Securities Act, of Avista Corp.

In all cases, issuance of New Notes pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of certificates for the Old Notes tendered for exchange or a timely Book-Entry Confirmation of such Old Notes into the Exchange Agent's account at DTC, a properly completed and duly executed letter of transmittal (or facsimile thereof or Agent's Message in lieu thereof) and all other required documents. If any tendered Old Notes are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if Old Notes are submitted for a greater principal amount than the Holder desires to exchange, such unaccepted or non-exchanged Old Notes will be returned without expense to the tendering Holder thereof (or, in the case of Old Notes tendered by book-entry transfer into the Exchange Agent's account at DTC pursuant to the book-entry transfer procedures described below, such non-exchanged Old Notes will be credited to an account maintained with DTC) as promptly as practicable after the expiration or termination of the Exchange Offer.

Avista Corp. reserves the right in its sole discretion to purchase or make offers for any Old Notes that remain outstanding subsequent to the Expiration Date or, as set forth above under "--Conditions to the Exchange Offer," to terminate the Exchange Offer and, to the extent permitted by applicable law, purchase Old Notes in the open market, in privately negotiated transactions or otherwise. The terms of any such purchases or offers could differ from the terms of the Exchange Offer.

#### WITHDRAWAL OF TENDERS OF OLD NOTES

Except as otherwise provided herein, tenders of Old Notes may be withdrawn at any time prior to 5:00 p.m., New York City time, on the Expiration Date.

To withdraw a tender of Old Notes in the Exchange Offer, a written or facsimile transmission notice of withdrawal must be received by the Exchange Agent at its address set forth herein prior to 5:00 p.m., New York City time, on the Expiration Date. Any such notice of withdrawal must

- (a) specify the name of the person having deposited the Old Notes to be withdrawn (the "Depositor"),
- (b) identify the Old Notes to be withdrawn (including the certificate number (unless tendered by book-entry transfer),
- (c) be signed by the Holder in the same manner as the original signature on the letter of transmittal by which such Old Notes were tendered (including any required signature guarantees) or be accompanied by documents of transfer sufficient to have the Trustee with respect to the Old Notes register the transfer of such Old Notes in the name of the person withdrawing the tender, and
- (d) specify the name in which any such Old Notes are to be registered, if different from that of the Depositor. If Old Notes have been tendered pursuant to book-entry transfer, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn Old Notes, in which case a notice of withdrawal will be effective

if delivered to the Exchange Agent by any method of delivery described in this paragraph.

All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by Avista Corp., whose determination shall be final and binding on all parties. Any Old Notes so withdrawn will be deemed not to have been validly tendered for purposes of the Exchange Offer and will be returned to the Holder thereof without cost to such Holder as soon as practicable after withdrawal; and no New Notes will be issued with respect thereto unless the Old Notes so withdrawn are validly retendered. Properly withdrawn Old Notes may be retendered by following one of the procedures described above under "-- Procedures for Tendering" at any time prior to the Expiration Date.

#### EXCHANGE AGENT

Chase Manhattan Bank and Trust Company, National Association has been appointed as Exchange Agent of the Exchange Offer. Requests for additional copies of this prospectus or of the letter of transmittal and requests for Notice of Guaranteed Delivery with respect to the exchange of the Old Notes should be directed to the Exchange Agent addressed as follows:

Chase Manhattan Bank and Trust Company, National Association  
101 California Street, Suite 2725  
San Francisco, California 94111-5830

Attention: Karen Lei

By Telephone: (415) 954-9518

By Facsimile: (415) 693-8850

#### FEES AND EXPENSES

The expenses of soliciting tenders will be paid by Avista Corp. The principal solicitation is being made by mail; however, additional solicitation may be made by telecopier, telephone or in person by officers and regular employees of Avista Corp. and its affiliates.

Avista Corp. has not retained any dealer-manager in connection with the Exchange Offer and will not make any payments to brokers-dealers or others soliciting acceptances of the Exchange Offer. Avista Corp., however, will pay the Exchange Agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses in connection therewith.

The cash expenses to be incurred in connection with the Exchange Offer will be paid by Avista Corp. and are estimated in the aggregate to be approximately \$250,000. Such expenses include registration fees, fees and expenses of the Exchange Agent, accounting and legal fees and printing costs, among others.

Avista Corp. will pay all transfer taxes, if any, applicable to the exchange of the Old Notes pursuant to the Exchange Offer. If, however, certificates representing New Notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered Holder of Old Notes tendered, or if tendered Old Notes are registered in the name of, any person other than the person signing the letter of transmittal, or if a transfer tax is imposed for any reason other than the exchange of the Old Notes pursuant to the Exchange Offer, then the amount of any such transfer taxes (whether imposed on the registered Holder or any other persons) will be payable by the tendering Holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to such tendering Holder.

## DESCRIPTION OF THE NEW NOTES

You can find the definitions of certain terms used in this description under the subheading "--Certain Definitions." In this description, the words "Avista Corp." refer only to Avista Corporation and not to any of its subsidiaries, except for purposes of financial data determined on a consolidated basis. The Old Notes and the New Notes are sometimes collectively called the "notes".

Avista Corp. issued the Old Notes under an indenture, dated as of April 3, 2001, between itself and Chase Manhattan Bank and Trust Company, National Association, as trustee, in a private transaction that was not subject to the registration requirements of the Securities Act. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

The following description is a summary of the material provisions of the indenture relating to the Old Notes. It does not restate the indenture in its entirety. We urge you to read the indenture because it, and not this description, defines your rights as holders of the Old Notes. Some defined terms used in this description but not defined below under "--Certain Definitions" have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

## RANKING OF THE NOTES

The notes:

- o are general unsecured obligations of Avista Corp.;
- o are pari passu in right of payment with all existing and future unsecured senior Indebtedness of Avista Corp.; and
- o are senior in right of payment to all current and future subordinated Indebtedness of Avista Corp., if any.

As of April 30, 2001, Avista Corp. had outstanding \$203.5 million principal amount of first mortgage bonds, which are secured by a lien on substantially all of Avista Corp.'s utility plant assets (currently owned or hereafter acquired), and \$120 million of secured short-term bank debt (secured by a pledge of the stock of Avista Capital) under Credit Facilities with remaining available commitments of \$110 million. On May 31, 2001 Avista Corp. renewed its committed line of credit and repaid all outstanding borrowings under that facility. By reason, and to the extent, of these liens, the first mortgage bonds and secured bank debt rank prior to the notes. As of April 30, 2001, Avista Corp. also had outstanding \$876 million of unsecured long-term debt and \$75.4 million of current portion of unsecured long-term debt. All of such unsecured indebtedness is pari passu in right of payment with the notes. In addition, Avista Corp. had subordinated debentures in a net principal amount outstanding of \$103.4 million which are held by the trusts which issued \$100 million of outstanding preferred trust securities. The notes are senior in right of payment to these debentures. The amounts of indebtedness discussed in this paragraph relate to Avista Corp. only and not to its subsidiaries.

As of the date of this prospectus, all of our subsidiaries are "Restricted Subsidiaries." However, under the circumstances described below under the subheading "--Certain Other Covenants--Designation of Restricted and Unrestricted Subsidiaries", we will be permitted to designate certain of our subsidiaries as "Unrestricted Subsidiaries." Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indenture.

Although its utility operations are conducted directly by Avista Corp., all of the other operations of Avista Corp. are conducted through its subsidiaries. The notes will be effectively subordinated in right of payment to all Indebtedness and other liabilities and commitments (including trade payables and lease obligations) of Avista Corp.'s subsidiaries. Any right of Avista Corp. to receive assets of any of its subsidiaries upon the subsidiary's liquidation or



reorganization (and the consequent right of the holders of the notes to participate in those assets) will be effectively subordinated to the claims of that subsidiary's creditors, except to the extent that Avista Corp. is itself recognized as a creditor of the subsidiary, in which case the claims of Avista Corp. would still be subordinate in right of payment to any security in the assets of the subsidiary and any indebtedness of the subsidiary senior to that held by Avista Corp. In addition, Avista Corp.'s ability to access the cash flow of its subsidiaries is subject to substantial restrictions. As of March 31, 2001, Avista Corp.'s subsidiaries had approximately \$3.7 million of Indebtedness, \$639.4 million of payables and other liabilities, and \$9.3 billion of energy commodity liabilities (energy commodity liabilities are held in a portfolio containing \$9.5 billion of energy commodity assets) outstanding.

#### PRINCIPAL, MATURITY AND INTEREST

Avista Corp. has limited the aggregate principal amount of notes which can be issued under the indenture to \$600 million, of which Avista Corp. has issued \$400 million aggregate principal amount. Avista Corp. may issue additional notes (the "Additional Notes") from time to time. Any offering of Additional Notes is subject to the covenant described below under the caption "--Certain Other Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock." The notes and any Additional Notes subsequently issued under the indenture would be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. Avista Corp. will issue notes in denominations of \$1,000 and integral multiples of \$1,000. The notes will mature on June 1, 2008.

Interest on the notes will accrue at the rate of 9.75% per annum and will be payable semi-annually in arrears on June 1 and December 1, commencing on December 1, 2001. Avista Corp. will make each interest payment to the holders of record on the immediately preceding May 15 and November 15.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

#### METHODS OF RECEIVING PAYMENTS ON THE NOTES

If a holder has given wire transfer instructions to Avista Corp. at least ten business days prior to the applicable payment date, Avista Corp. will pay all principal, interest and premium, if any, on that holder's notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the paying agent and registrar for the notes within the City and State of New York unless Avista Corp. elects to make interest payments by check mailed to the holders at their addresses set forth in the register of holders.

#### PAYING AGENT AND REGISTRAR FOR THE NOTES

The trustee will initially act as paying agent and registrar. Avista Corp. may change the paying agent or registrar without prior notice to the holders, and Avista Corp. or any of its Subsidiaries may act as paying agent or registrar.

#### TRANSFER AND EXCHANGE

A holder may transfer or exchange notes in accordance with the indenture. The registrar and the trustee may require a holder to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. Avista Corp. is not required to transfer or exchange any note selected for redemption.

#### OPTIONAL REDEMPTION

The notes are redeemable in whole or in part, at the option of Avista Corp. at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the notes being redeemed discounted to the date of redemption on a semiannual basis

(assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Yield plus 50 basis points, plus, for (i) or (ii) above, whichever is applicable, accrued interest on such notes to the date of redemption.

"Treasury Yield" means, with respect to any Redemption Date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date.

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

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

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

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

"Independent Investment Banker" means an independent investment banking institution of national standing appointed by Avista Corp. and reasonably acceptable to the trustee.

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

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

Notice of redemption shall be given not less than 15 days nor more than 60 days prior to the date fixed for redemption.

Unless Avista Corp. defaults in payment of the Redemption Price (as defined below), from and after the Redemption Date, the notes or portions thereof called for redemption will cease to bear interest, and the holders thereof will have no right in respect to such notes except the right to receive the Redemption Price thereof.

Under the procedures set forth above, the price (the "Redemption Price") payable upon the optional redemption at any time of notes is determined by calculating the present value (the "Present Value") at such time of each remaining payment of principal or interest on such notes and then totaling such Present Values. If the sum of such Present Values is equal to or less than 100% of the principal amount of such notes, the Redemption Price of such notes will be 100% of its principal amount (redemption at par). If the sum of such Present Values is greater than 100% of the principal amount of such notes, the Redemption Price of such notes will be such greater amount (redemption at a premium). In no event may a note be redeemed optionally at less than 100% of its principal amount.

The Present Value at any time of a payment of principal or interest on a note is calculated by applying to such payment the discount rate (the "Discount Rate") applicable to such payment. The Discount Rate applicable at any time to a

payment of principal of or interest on a note equals the equivalent yield to maturity at such time of a fixed rate United States treasury security having a maturity comparable to the maturity of such payment plus 50 basis points; such yield being calculated on the basis of the interest rate borne by such United States treasury security and the price at such time of such security. The United States treasury security employed in the calculation of a Discount Rate (a "Relevant Security") as well as the price and equivalent yield to maturity of such Relevant Security will be selected or determined by an investment banker of national standing selected by Avista Corp. which is reasonably acceptable to the trustee.

Whether the sum of the Present Values of the remaining payments of principal of and interest on a note to be redeemed optionally will or will not exceed 100% of its principal amount and, accordingly, whether such notes will be redeemed at par or at a premium will depend on the Discount Rate used to calculate such Present Values. Such Discount Rate, in turn, will depend upon the equivalent yield to maturity of a Relevant Security which yield will itself depend on the interest rate borne by, and the price of, the Relevant Security. While the interest rate borne by the Relevant Security is fixed, the price of the Relevant Security tends to vary with interest rate levels prevailing from time to time. In general, if at a particular time the prevailing level of interest rates for a newly issued United States treasury security having a maturity comparable to that of a Relevant Security is higher than the level of interest rates for newly issued United States treasury securities having a maturity comparable to such Relevant Security prevailing at the time the Relevant Security was issued, the price of the Relevant Security will be lower than its issue price. Conversely, if at a particular time the prevailing level of interest rates for a newly issued United States treasury security having a maturity comparable to that of a Relevant Security is lower than the level of interest rates prevailing for newly issued United States treasury securities having a maturity comparable to the Relevant Security at the time the Relevant Security was issued, the price of the Relevant Security will be higher than its issue price.

Because the equivalent yield to maturity on a Relevant Security depends on the interest rate it bears and its price, an increase or a decrease in the level of interest rates for newly issued United States treasury securities with a maturity comparable to that of a Relevant Security above or below the levels of interest rates for newly issued United States treasury securities having a maturity comparable to the Relevant Security prevailing at the time of issue of the Relevant Security will generally result in an increase or a decrease, respectively, in the Discount Rate used to determine the Present Value of a payment of principal of or interest on a note. As noted above, if the sum of the Present Values of the remaining payments of principal of and interest on a note proposed to be redeemed is less than its principal amount, such note may only be redeemed at par.

#### MANDATORY REDEMPTION

Avista Corp. is not required to make any mandatory redemption or sinking fund payments with respect to the notes.

#### SELECTION AND NOTICE

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption as follows:

(1) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

No portion of a note less than \$1,000 will be redeemed. Notices of redemption will be mailed by first class mail at least 15 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed

portion of the original note will be issued in the name of the holder thereof upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

#### REPURCHASE AT THE OPTION OF HOLDERS

##### CHANGE OF CONTROL

In the event of a Change of Control, each holder of notes will have the right to require Avista Corp. to repurchase all or any part (equal to \$1,000 or an integral multiple of \$1,000) of that holder's notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, Avista Corp. will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, thereon, to the date of purchase. Within ten days following any Change of Control, Avista Corp. will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, pursuant to the procedures required by the indenture and described in such notice. Avista Corp. will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control.

On the Change of Control Payment Date, Avista Corp. will, to the extent lawful:

- (1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions of notes being purchased by Avista Corp.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; provided that each new note will be in a principal amount of \$1,000 or an integral multiple of \$1,000. Avista Corp. will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require Avista Corp. to make a Change of Control Offer following a Change of Control will be applicable regardless of whether any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that Avista Corp. repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction. Accordingly, the indenture may not afford the holders of notes protection in all circumstances from the adverse aspects of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction.

Avista Corp. will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by Avista Corp. and purchases all notes properly tendered and not withdrawn under such Change of Control Offer.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of Avista Corp. and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all", there is no precise established

definition of the phrase under applicable law. Accordingly, it may be uncertain whether a holder of notes can require Avista Corp. to repurchase those notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Avista Corp. and its Subsidiaries taken as a whole.

#### ASSET SALES

Unless the Rating Condition is satisfied, Avista Corp. will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) Avista Corp. (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of, as determined by Avista Corp.'s Board of Directors and evidenced by a resolution of the Board of Directors set forth in an Officers' Certificate delivered to the trustee before or a reasonable time after such Asset Sale; and

(2) at least 75% of the consideration received in such Asset Sale by Avista Corp. or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following shall be deemed to be cash:

(a) any liabilities (as shown on Avista Corp.'s or such Restricted Subsidiary's most recent balance sheet) of Avista Corp. or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated in right of payment to the notes) that are assumed by the transferee or purchaser of any such assets pursuant to an agreement that releases Avista Corp. or such Restricted Subsidiary from further liability; and

(b) any securities, notes or other obligations received by Avista Corp. or any such Restricted Subsidiary from such transferee that are contemporaneously (subject to ordinary settlement periods) converted by Avista Corp. or such Restricted Subsidiary into cash (to the extent of the cash received in that conversion, sale or exchange).

Within 360 days after the receipt of any Net Proceeds from an Asset Sale that is consummated at a time when the Rating Condition is not satisfied, Avista Corp. may apply those Net Proceeds:

(1) to repay Indebtedness (other than intercompany Indebtedness) of Avista Corp., or a Restricted Subsidiary of Avista Corp., and to correspondingly reduce commitments if such Indebtedness constitutes revolving credit borrowings;

(2) to make capital expenditures; or

(3) to acquire other long-term assets that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, Avista Corp. may temporarily reduce revolving credit borrowings or otherwise invest Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are consummated at a time when the Rating Condition is not satisfied that are not applied or invested as provided above in the preceding paragraph will constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds \$15 million, Avista Corp. will make an Asset Sale Offer to all holders of notes (and to all holders of other Indebtedness that is pari passu with the notes and that contains provisions similar to those set forth in the indenture relating to the notes with respect to offers to purchase or redeem with the proceeds of sales of assets) to purchase the maximum principal amount of notes and such other pari passu

Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of principal amount (or 100% of the accreted value thereof, in the case of Indebtedness sold at a discount) plus accrued and unpaid interest to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, Avista Corp. may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, Avista Corp. will allocate the Excess Proceeds on a pro rata basis to the notes and such other Indebtedness tendered, and the trustee will select the notes to be purchased on a pro rata basis based on the principal amount of notes tendered. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

Notwithstanding the foregoing,

(1) Avista Corp. may (i) dispose of all or any portion of its transmission assets in one or more RTO Transactions, or (ii) effect, or permit any Restricted Subsidiary to effect, an Asset Sale in which the Capital Stock of Avista Communications, Avista Advantage or Avista Labs (provided such Person is operating substantially the same business as at the date of the indenture) is exchanged for Capital Stock or other securities of another Person if, upon completion thereof, the subject or transferee Person is no longer a Subsidiary of Avista Corp.; provided, however, that if the Rating Condition is not satisfied at the time of such transaction, Avista Corp. shall apply any Net Proceeds therefrom in accordance with the foregoing provisions; provided, further, that if Avista Corp. or any Restricted Subsidiary thereafter disposes of any Capital Stock or other securities or ownership interest in the subject or transferee Person received in, or retained subsequent to, any such transaction, any cash realized therefrom shall be treated as Net Proceeds from an Asset Sale and applied in accordance with the foregoing provisions; and

(2) these provisions shall not apply to any Asset Sale which constitutes a transfer, conveyance, sale, lease or other disposition of all or substantially all of Avista Corp.'s properties or assets. See below under "--Certain Other Covenants--Merger, Consolidation or Sale of Assets."

Avista Corp. will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sales provisions of the indenture, Avista Corp. will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such conflict.

#### CERTAIN OTHER COVENANTS

Set forth below are certain other covenants contained in the indenture. During any period of time that (i) Moody's and S&P have issued credit ratings of Avista Corp.'s senior unsecured debt of at least Baa2 and BBB, respectively, in each case with a stable or improving outlook and (ii) no Default has occurred and is continuing under the indenture (which we refer to collectively as the "Rating Condition"), Avista Corp. and its Restricted Subsidiaries will not be subject to the provisions of the Indenture described above under "Repurchase at the Option of Holders--Asset Sales", and the provisions described below under "--Restricted Payments", "--Incurrence of Indebtedness and Issuance of Preferred Stock", "--Dividend and Other Payment Restrictions Affecting Subsidiaries", and "--Transactions with Affiliates", and clause (4) of the "--Merger, Consolidation and Sale of Assets" covenant (collectively, the "Suspended Covenants"). If Avista Corp. and its Restricted Subsidiaries are not subject to the Suspended Covenants with respect to the notes for any period of time as a result of the preceding sentence and, subsequently, one or both of Moody's and S&P withdraw their ratings or downgrade the ratings assigned to the notes below the specified ratings, then Avista Corp. and each of its Restricted Subsidiaries (except to the extent that any Restricted Subsidiary is not subject to any such covenant pursuant to the terms thereof) will thereafter again be subject to the Suspended Covenants for the benefit of the notes and compliance with the Suspended Covenants with respect to Restricted Payments made after the time of such withdrawal or downgrade will be calculated in accordance with the terms of the covenant described below under "--Restricted Payments" as if such covenant had been in effect during the entire period of time from the date of the indenture.

#### RESTRICTED PAYMENTS

Unless the Rating Condition is satisfied, Avista Corp. will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of Avista Corp.'s Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving Avista Corp. or any of its Restricted Subsidiaries) or to the direct or indirect holders of Avista Corp.'s or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Avista Corp. or dividends or distributions to Avista Corp. or a Restricted Subsidiary of Avista Corp.);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Avista Corp.) any Equity Interests of Avista Corp. or any Person that beneficially owns, directly or indirectly, a majority of the Capital Stock of Avista Corp.;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness that is subordinated in right of payment to the notes, except a payment of interest or principal at or after the Stated Maturity thereof or a refinancing thereof within one year of the final maturity date thereof; or

(4) make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) being collectively referred to as "Restricted Payments"),

unless, at the time of and after giving effect to such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence thereof;

(2) Avista Corp. would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "-- Incurrence of Indebtedness and Issuance of Preferred Stock"; and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Avista Corp. and its Subsidiaries after the date of the indenture (excluding Restricted Payments permitted by clauses (2) through (7) and (9) of the next succeeding paragraph), is less than the sum, without duplication, of:

(a) 50% of the Consolidated Net Income of Avista Corp. for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing prior to the date of the indenture to the end of Avista Corp.'s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), plus

(b) 100% of the aggregate net cash proceeds received by Avista Corp. since the date of the indenture as a contribution to its common equity capital or from the issue or sale of Equity Interests of Avista Corp. (other than Disqualified Stock) or upon the exercise of any options, warrants or other rights to purchase Capital Stock (other than Disqualified Capital Stock) of Avista Corp. or from the issuance or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of Avista Corp. that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of Avista Corp.), plus

(c) 100% of the net reduction in any Restricted Investment that was made after the date of the indenture resulting from payments of interest on Indebtedness, dividends, repayment of loans or advances, or other transfers of assets, in each case to Avista Corp. or any Restricted Subsidiary, and the cash return of capital with respect to any Restricted Investment (less the cost of disposition, if any), plus

(d) to the extent that any Unrestricted Subsidiary of Avista Corp. is redesignated as a Restricted Subsidiary after the date of the indenture, the fair market value of Avista Corp.'s Investment in such Subsidiary as of the date of such redesignation, plus

(e) any amount which previously qualified as a Restricted Payment on account of any Guarantee entered into by Avista Corp. or any Restricted Subsidiary; provided that such Guarantee has not been called upon and the obligation arising under such Guarantee no longer exists; less

(f) the after-tax amount of any power and natural gas cost deferrals for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing prior to the date of the indenture to the end of Avista Corp.'s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment; plus

(g) the after-tax amount of any amortization of power and natural gas deferrals for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing prior to the date of the indenture to the end of Avista Corp.'s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment.

So long as no Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the indenture;

(2) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of Avista Corp. or of any Equity Interests of Avista Corp. in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of Avista Corp.) of, Equity Interests of Avista Corp. (other than Disqualified Stock); provided that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3)(b) of the preceding paragraph;

(3) the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of Avista Corp. with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4) the repurchase, redemption, retirement, refinancing, acquisition for value or payment of any Disqualified Stock in exchange for, or out of the net cash proceeds of, the substantially concurrent issuance of new Disqualified Stock of Avista Corp.; provided that any such new Disqualified Stock:

(a) shall have an aggregate liquidation preference that does not exceed the aggregate liquidation preference of the amount so refinanced;

(b) has a Weighted Average Life to Maturity greater than the remaining Weighted Average Life to Maturity of the Disqualified Capital Stock being refinanced; and

(c) has a Stated Maturity later than the Stated Maturity of the Disqualified Stock being refinanced;

(5) the repurchase of any subordinated Indebtedness of Avista Corp. at a purchase price not greater than 101% of the principal amount of such subordinated Indebtedness in the event of a Change of Control pursuant to a provision similar to "Repurchase at the Option of Holders--Change of Control"; provided that prior to consummating any such repurchase, Avista Corp. has made the Change of Control Offer required by the indenture and has repurchased all notes validly tendered for payment in connection with such Change of Control Offer;

(6) the repurchase of any subordinated Indebtedness of Avista Corp. at a purchase price not greater than 100% of the principal amount of such Indebtedness in the event of an Asset Sale pursuant to a provision similar



to the "--Repurchase at the Option of Holders--Asset Sales" covenant; provided that prior to consummating any such repurchase, Avista Corp. has made the Asset Sale Offer required by the indenture and has repurchased all notes validly tendered for payment in connection with such Asset Sale Offer;

(7) repurchases of Capital Stock (or warrants or options convertible into or exchangeable for such Capital Stock) deemed to occur upon exercise of stock options to the extent that shares of such Capital Stock (or warrants or options convertible into or exchangeable for such Capital Stock) represent a portion of the exercise price of such options;

(8) the declaration and payment of regular quarterly cash dividends in respect of Avista Corp.'s common stock in a per share amount not to exceed 105% of the quarterly dividend for the immediately preceding calendar quarter, and in respect of Avista Corp.'s preferred stock in an aggregate amount not to exceed \$2.5 million per calendar quarter; provided that the aggregate amount of such cash dividends will be included as Restricted Payments for purposes of determining the amount of Restricted Payments that may be made pursuant to clause (3) of the preceding paragraph; or

(9) other Restricted Payments by Avista Corp. or any Restricted Subsidiary in an aggregate amount not to exceed \$10 million since the date of the indenture.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued to or by Avista Corp. or such Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors whose resolution with respect thereto shall be delivered to the trustee.

#### INCURRENCE OF INDEBTEDNESS AND ISSUANCE OF PREFERRED STOCK

Unless the Rating Condition is satisfied, Avista Corp. will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "incur") any Indebtedness (including Acquired Debt), and Avista Corp. will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however, that Avista Corp. may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and Avista Corp.'s Restricted Subsidiaries may incur Indebtedness or issue preferred stock, if the Fixed Charge Coverage Ratio for Avista Corp.'s most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock or Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

This covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

(1) the incurrence by Avista Corp. or any of its Restricted Subsidiaries of Indebtedness and letters of credit under one or more Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of Avista Corp. and its Restricted Subsidiaries thereunder) equal to \$600 million outstanding at any one time, less principal repayments of term loans and permanent commitment reductions with respect to revolving loans and letters of credit under any Credit Facility (in each case, other than in connection with an amendment, refinancing, refunding, replacement, renewal or modification) made after the date of the Indenture;

(2) the incurrence by Avista Corp. or any of its Restricted Subsidiaries of the Existing Indebtedness;

(3) the incurrence by Avista Corp. of Indebtedness represented by the notes;

(4) the incurrence by Avista Corp. or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace, Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (8), (11) or (12) of this paragraph;

(5) the incurrence by Avista Corp. or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Avista Corp. and any of its Restricted Subsidiaries; provided, however, that:

(a) if Avista Corp. is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the notes; and

(b)(i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Avista Corp. or a Restricted Subsidiary thereof and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either Avista Corp. or a Restricted Subsidiary thereof, shall be deemed, in each case, to constitute an incurrence of such Indebtedness by Avista Corp. or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (5);

(6) the incurrence by Avista Corp. or any of its Restricted Subsidiaries of:

(a) Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk with respect to any floating rate Indebtedness that is permitted by the terms of the indenture to be outstanding;

(b) Currency Hedging Obligations relating to Indebtedness of Avista Corp. or any Restricted Subsidiary and/or to obligations to purchase or sell assets or properties; provided that such Currency Hedging Obligations do not increase the Indebtedness or other obligations of Avista Corp. or any Restricted Subsidiary other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;

(c) Commodity Price Protection Obligations; provided that such Commodity Price Protection Obligations do not increase the amount of Indebtedness or other obligations of Avista Corp. or any Restricted Subsidiary other than as a result of fluctuations in commodity prices or by reason of fees, indemnities and compensation payable thereunder; and

(d) the Guarantee by any Restricted Subsidiary of Avista Corp. of Indebtedness of Avista Corp. if such Restricted Subsidiary guarantees the notes by executing a guarantee and supplemental indenture in the forms prescribed by the indenture;

(7) the Guarantee by Avista Corp. or any Subsidiary of Avista Corp. of Indebtedness of a Restricted Subsidiary of Avista Corp. that was permitted to be incurred by another provision of this covenant;

(8) Indebtedness of Avista Corp. or any Restricted Subsidiary of Avista Corp., represented by Capital Lease Obligations, or preferred stock of a Restricted Subsidiary issued, or Indebtedness of Avista Corp. or a Restricted Subsidiary incurred or assumed (i) to finance capital expenditures or (ii) in connection with the acquisition or development of real property, plant or equipment or the Capital Stock of a Restricted Subsidiary that owns such property, plant or equipment in each case incurred for the purpose of financing all or any part of the purchase price of such property, plant or equipment or Capital Stock, in each case in an aggregate principal amount (or accreted value, as applicable) at any time outstanding pursuant to this clause (8), including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (8), not to exceed \$275 million;

(9) Indebtedness incurred to finance power and natural gas cost deferrals pursuant to, and in accordance with, state statutory or public utility commission authorization, in an amount not to exceed the amount of the deferrals so financed;

(10) Indebtedness of Avista Corp. or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five business days of incurrence;

(11) shares of preferred stock of a Restricted Subsidiary of Avista Corp. issued to Avista Corp. or another Restricted Subsidiary of Avista Corp.; provided that any subsequent transfer of any Capital Stock or any other event that results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any other subsequent transfer of any such shares of preferred stock (except to Avista Corp. or another Restricted Subsidiary of Avista Corp.) shall be deemed, in each case, to be an issuance of preferred stock that was not permitted by this clause (11); and

(12) the incurrence by Avista Corp. or any of its Restricted Subsidiaries of additional Indebtedness (including under a Credit Facility) in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (12), not to exceed \$25 million.

In addition, Avista Corp. will not incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of Avista Corp. unless such Indebtedness is also contractually subordinated in right of payment to the notes pursuant to terms no less favorable to the holders of the notes; provided, however, that no Indebtedness of Avista Corp. shall be deemed to be contractually subordinated in right of payment to any other Indebtedness of Avista Corp. solely by virtue of being unsecured.

For purposes of determining compliance with this "Incurrence of Indebtedness and Issuance of Preferred Stock" covenant:

(1) in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (12) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, Avista Corp. will be permitted to classify such item of Indebtedness on the date of its incurrence in any manner that complies with this covenant;

(2) Indebtedness under Credit Facilities outstanding on the date of the indenture shall be deemed to have been incurred on the date of the indenture in reliance on the exception provided by clause (1) of the definition of Permitted Debt;

(3) the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; provided, in each such case, that the amount thereof is included in Fixed Charges of Avista Corp. as accrued; and

(4) for purposes of determining compliance with any dollar-denominated restriction on the incurrence of Indebtedness denominated in a foreign currency, the dollar-equivalent principal amount of such Indebtedness incurred pursuant thereto shall be calculated based on the relevant currency exchange rate in effect on the date that such Indebtedness was incurred.

Notwithstanding the foregoing, Avista Corp. will not incur or suffer to exist, or permit any of its Restricted Subsidiaries or Unrestricted Subsidiaries to incur or suffer to exist, any Obligations with respect to an Unrestricted Subsidiary that would violate the provisions set forth in the definition of Unrestricted Subsidiary. Specifically, without limiting the generality of the foregoing, if an Unrestricted Subsidiary incurs Indebtedness that is not Non-Recourse Debt or any Indebtedness of an Unrestricted Subsidiary ceases to be Non-Recourse Debt, such Unrestricted Subsidiary will then cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Avista Corp. as of such date.

## LIENS

Avista Corp. will not and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any consensual Lien of any kind securing Indebtedness or trade payables (other than Permitted Liens) upon any of their property or assets, now owned or hereafter acquired, unless all payments due under the indenture and the notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien; provided, however, that Avista Corp. and its Restricted Subsidiaries may incur other Liens to secure Indebtedness or trade payables as long as the sum of (x) the amount of outstanding Indebtedness and trade payables secured by Liens incurred pursuant to this proviso plus (y) the Attributable Debt with respect to all outstanding leases in connection with Sale/Leaseback Transactions entered into pursuant to the second paragraph of the covenant described below under the caption "--Sale and Leaseback Transactions", does not exceed \$25 million.

## DIVIDEND AND OTHER PAYMENT RESTRICTIONS AFFECTING SUBSIDIARIES

Unless the Rating Condition is satisfied, Avista Corp. will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to Avista Corp. or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to Avista Corp. or any of its Restricted Subsidiaries;

(2) make loans or advances to Avista Corp. or any of its Restricted Subsidiaries; or

(3) transfer any of its properties or assets to Avista Corp. or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) Existing Indebtedness and Indebtedness under Credit Facilities as in effect on the date of the indenture and any amendments, modifications, restatements, renewals, increases, supplements, refundings, restructurings (including rate increases), replacements or refinancings thereof, provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, restructurings, replacement or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such Indebtedness, as in effect on the date of the indenture;

(2) the indenture and the notes;

(3) applicable law or any requirement of any regulatory body;

(4) any instrument governing Indebtedness or Capital Stock of a Person acquired by Avista Corp. or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;

(5) customary non-assignment provisions of (a) any leases governing a leasehold interest, (b) any supply, license or other agreement entered into in the ordinary course of business of Avista Corp. or any of its Restricted Subsidiaries, or (c) any security agreement relating to a Lien incurred pursuant to clause (10) of the definition of Permitted Liens;

(6) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on the property so acquired of the nature described in clause (3) of the preceding paragraph;

(7) any agreement for the sale or other disposition of a Restricted Subsidiary or assets that restricts distributions by that Subsidiary or of such assets pending such sale or other disposition;

(8) Permitted Refinancing Indebtedness, provided that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(9) Liens securing Indebtedness that limit the right of the debtor to dispose of the assets subject to such Lien; and

(10) provisions with respect to the disposition or distribution of assets or property in asset sale agreements entered into in the ordinary course of business.

#### MERGER, CONSOLIDATION OR SALE OF ASSETS

Avista Corp. may not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not Avista Corp. is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of Avista Corp. and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person; unless:

(1) either:

(a) Avista Corp. is the surviving corporation; or

(b) the Person formed by or surviving any such consolidation or merger or to which such sale, assignment, transfer, conveyance or other disposition shall have been made is either (i) a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia or (ii) a partnership or limited liability company organized or existing under the laws of the United States, any state thereof or the District of Columbia, in either case, that has at least one Restricted Subsidiary that is a corporation organized or existing under the laws of the United States, any state thereof or the District of Columbia which corporation becomes a co-issuer of the notes pursuant to a supplemental indenture in form reasonably satisfactory to the trustee;

(2) the Person formed by or surviving any such consolidation or merger (if other than Avista Corp.) or the Person to which such sale, assignment, transfer, conveyance or other disposition shall have been made assumes all the obligations of Avista Corp. under the notes and, the indenture pursuant to agreements in form reasonably satisfactory to the trustee;

(3) immediately after such transaction no Default or Event of Default exists; and

(4) either:

(a) Avista Corp. or the Person formed by or surviving any such consolidation or merger (if other than Avista Corp.), or to which such sale, assignment, transfer, conveyance or other disposition shall have been made will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness, either pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "--Incurrence of Indebtedness and Issuance of Preferred Stock" or because the Rating Condition is then satisfied; or

(b) on the date of such transaction after giving pro forma effect thereto and any related financing transactions, as if the same had occurred at the beginning of the applicable four-quarter period, the pro forma Fixed Charge Coverage Ratio of the surviving Person (if other than Avista Corp.) will exceed the actual Fixed Charge Coverage Ratio of Avista Corp. as of such date.

In addition, Avista Corp. may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person.

#### TRANSACTIONS WITH AFFILIATES

Unless the Rating Condition is satisfied, Avista Corp. will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an "Affiliate Transaction"), unless:

(1) the terms of such Affiliate Transaction or series of related Affiliate Transactions are no less favorable to Avista Corp. or such Restricted Subsidiary, as the case may be, than those that would be obtainable in a comparable transaction or series of related transactions in arm's-length dealings with an unrelated third party; and

(2) Avista Corp. delivers to the trustee (i) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10 million, a resolution of the Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with clause (1) above and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors and (ii) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$25 million, a written opinion of a nationally recognized investment banking, accounting or appraisal firm stating that such transaction or series of transactions is fair to the holders from a financial point of view.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment, compensation or indemnification arrangement entered into by Avista Corp. or any of its Restricted Subsidiaries in the ordinary course of business with employees, directors, officers or consultants;

(2) loans or advances to officers, directors, consultants and employees in the ordinary course of business or guarantees in respect thereof or otherwise made on their behalf (including any payments on such guarantees);

(3) any redemption of Capital Stock held by employees upon death, disability or termination of employment at a price not in excess of the fair market value thereof;

(4) the grant of stock options or similar rights to employees and directors of Avista Corp.;

(5) payment of reasonable directors fees;

(6) transactions between or among Avista Corp. and/or its Restricted Subsidiaries; and

(7) Restricted Payments and Permitted Investments that are permitted by the provisions of the indenture described above under the caption "--Restricted Payments."

#### SALE AND LEASEBACK TRANSACTIONS

Avista Corp. will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale/Leaseback Transaction with respect to any property owned on the date of the indenture or thereafter acquired unless:

(1) Avista Corp. or such Restricted Subsidiary would be entitled to create a Lien on such property securing Indebtedness in an amount at least equal to the Attributable Debt with respect to such transaction without equally and ratably securing the notes pursuant to the covenant described above under the caption "--Liens";

(2) the Net Proceeds of the sale are at least equal to the fair market value (as determined by the Board of Directors) of the property sold and Avista Corp. or such Restricted Subsidiary applies an amount in cash equal to the net proceeds of such sale to the retirement, within 180 days of the effective date of any such arrangement, of Indebtedness of Avista Corp. or a Restricted Subsidiary or purchases other property having a fair market value at least equal to the fair market value of the assets or property sold in such transactions; or

(3) such Sale/Leaseback Transaction is between Avista Corp. and any of its Restricted Subsidiaries or between any Restricted Subsidiaries of Avista Corp.

In addition to the transactions permitted pursuant to the preceding paragraph, Avista Corp. or any Restricted Subsidiary may enter into any other Sale/Leaseback Transaction as long as the sum of:

(a) the Attributable Debt with respect to such Sale/Leaseback Transaction and all other Sale/Leaseback Transactions entered into pursuant to this proviso, plus

(b) the amount of outstanding Indebtedness secured by Liens incurred pursuant to the final proviso to the covenant described under "--Liens",

does not exceed \$25 million.

#### DESIGNATION OF RESTRICTED AND UNRESTRICTED SUBSIDIARIES

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by Avista Corp. and its Restricted Subsidiaries in the Subsidiary so designated will be deemed to be an Investment made as of the time of such designation and will either reduce the amount available for Restricted Payments under the first paragraph of the covenant described above under the caption "--Restricted Payments" or reduce the amount available for future Investments under one or more clauses of the definition of Permitted Investments, or both, as Avista Corp. shall determine. That designation will be permitted only if such Investment would be permitted at that time and if such Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default. Any designation by the Board of Directors shall be evidenced to the trustee by filing with the trustee a certified copy of the board resolution giving effect to the designation and an Officer's Certificate certifying that the designation complied with these conditions and was permitted by the "Restricted Payments" covenant.

If, at any time, any Unrestricted Subsidiary would fail to meet the requirements of the definition of an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of the Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Avista Corp. as of that date (and, if such Indebtedness is not permitted to be incurred as of that date under the covenant describes under the caption "--Incurrence of Indebtedness and Issuance of Preferred Stock", Avista Corp. will be in default of such covenant).

The Board of Directors of Avista Corp. may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Avista Corp. of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will be permitted only if (i) such Indebtedness is permitted under the covenant described under the caption "--Incurrence of Indebtedness and Issuance of Preferred Stock", calculated on a pro forma basis as if the designation had occurred at the beginning of the four-quarter period, and (ii) no Default or Event of Default would be in existence following the designation.

#### REPORTS

Whether or not required by the rules and regulations of the SEC, so long as any notes are outstanding, Avista Corp. will furnish to the holders of notes, within the time periods specified in the SEC's rules and regulations:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report on the annual financial statements by Avista Corp.'s certified independent accountants; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K.

In addition, whether or not required by the rules and regulations of the SEC, Avista Corp. will file a copy of all of the information and reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the SEC's rules and regulations (unless the SEC will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. Avista Corp. has also agreed that, for so long as any Old Notes remain outstanding, it will furnish to the holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

#### EVENTS OF DEFAULT AND REMEDIES

Each of the following is an Event of Default:

(1) default continued for 30 days in the payment when due of interest on, the notes;

(2) default in payment when due of the principal of, or premium, if any, on the notes;

(3) failure by Avista Corp. or any of its Restricted Subsidiaries to comply with any of the provisions described under the captions "--Repurchase at the Option of Holders--Change of Control", "--Repurchase at the Option of Holders--Assets Sales" or "Certain Other Covenants--Merger, Consolidation or Sale of Assets;"

(4) default in performance of any other agreements in the indenture or in the notes for 30 days after written notice to Avista Corp. by the trustee or to Avista Corp. and the trustee by the holders of at least 25% in principal amount on the notes then outstanding;

(5) there shall have occurred either (i) a default by Avista Corp. or any Restricted Subsidiary under any instrument or instruments under which there is or may be secured or evidenced any Indebtedness of Avista Corp. or any Restricted Subsidiary of Avista Corp. (other than the notes) having an outstanding principal amount of \$25 million or more that has caused the holders thereof to declare such Indebtedness to be due and payable prior to its maturity or (ii) a default by Avista Corp. or any Restricted Subsidiary



in the payment at maturity of the principal under any such instrument, and such unpaid portion exceeds \$25 million and is not paid, or such default is not cured or waived, within any grace period applicable thereto, unless such acceleration is rescinded or annulled or such Indebtedness is discharged within 20 days of Avista Corp. or a Restricted Subsidiary becoming aware of such default; provided, however, that this clause (5) shall not apply to any default on Non-Recourse Debt;

(6) any final judgment or order for the payment of money shall be rendered against Avista Corp., or any Restricted Subsidiary of Avista Corp. that is a Significant Subsidiary, in an amount in excess of \$25 million and shall not be discharged, and there shall be any period of 30 consecutive days following entry of the final judgment or order in excess of \$25 million during which a stay of enforcement of such final judgment or order, by reason of a pending appeal or otherwise, shall not be in effect;

(7) certain events of bankruptcy or insolvency with respect to Avista Corp. or any Restricted Subsidiary of Avista Corp. that is a Significant Subsidiary; and

(8) except as permitted by the indenture, any guarantee of the notes is held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any guarantor, or any Person acting on behalf of any guarantor, shall deny or disaffirm its obligations under such guarantor's guarantee of the notes.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Avista Corp. or any Restricted Subsidiary that is a Significant Subsidiary of Avista Corp., all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in principal amount of the then outstanding notes may declare all the notes to be due and payable immediately.

Holders of the notes may not enforce the indenture or the notes except as provided in the indenture. Subject to certain limitations, holders of a majority in principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest if it determines that withholding notice is in their interest.

The holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may on behalf of the holders of all of the notes waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest on, premium, if any, or the principal of, the notes.

Avista Corp. is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, Avista Corp. is required to deliver to the trustee a statement specifying such Default or Event of Default.

#### NO PERSONAL LIABILITY OF DIRECTORS, OFFICERS, EMPLOYEES AND STOCKHOLDERS

No director, officer, employee, incorporator, controlling person or stockholder of Avista Corp., as such, shall have any liability for any obligations of Avista Corp. under the notes or the indenture, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

#### LEGAL DEFEASANCE AND COVENANT DEFEASANCE

Avista Corp. may, at its option and at any time, elect to have all of its obligations discharged with respect to all or a portion of the outstanding notes ("Legal Defeasance") except for:

(1) the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium, if any, on such notes, when such payments are due from the trust referred to below;

(2) Avista Corp.'s obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the trustee, and Avista Corp.'s obligations in connection therewith; and

(4) the Legal Defeasance provisions of the indenture.

In addition, Avista Corp. may, at its option and at any time, elect to have the obligations of Avista Corp. released with respect to certain covenants that are described in the indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants shall not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "-Events of Default" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) Avista Corp. must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes (or, in the case of Legal Defeasance, a specified principal amount thereof), cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants to pay the principal of, premium, if any, and interest on the notes (or in the case of Legal Defeasance, such specified principal amount thereof) on the stated maturity or prior Redemption Date thereof, as the case may be,

(2) in the case of Legal Defeasance, Avista Corp. shall have delivered to the trustee:

(a) an opinion of counsel in the United States reasonably acceptable to the trustee confirming that (i) Avista Corp. has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of the indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred; or

(b)(i) an instrument wherein Avista Corp., notwithstanding the satisfaction and discharge of its Indebtedness in respect of the notes or a portion of the principal amount thereof, shall assume the obligation (which shall be absolute and unconditional) to irrevocably deposit with the trustee such additional sums of money, if any, or additional Government Securities, if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or Government Securities theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such notes or portions thereof, provided, however, that such instrument may state that the obligation of Avista Corp. to make additional deposits as aforesaid shall arise only upon the delivery to Avista Corp. by the trustee of a notice asserting the deficiency and showing the calculation thereof and shall continue only until Avista Corp. shall have delivered to the trustee a further opinion of an independent public accountant of nationally recognized standing to the effect that no such deficiency exists and showing the calculation of the sufficiency of the deposits then held by the trustee; and (ii) an opinion of recognized tax counsel in the United States reasonably acceptable to the trustee to the effect that the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, Avista Corp. shall have delivered to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that the holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit;

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the indenture) to which Avista Corp. or any of its Subsidiaries is a party or by which Avista Corp. or any of its Subsidiaries is bound;

(6) Avista Corp. must deliver to the trustee an opinion of counsel to the effect that (assuming that no holder of any notes would be considered an insider of Avista Corp. under applicable bankruptcy or insolvency law) after the 123rd day following the deposit, the trust funds will not constitute a "voidable preference" under Section 547 of the Bankruptcy Code;

(7) Avista Corp. must deliver to the trustee an Officers' Certificate stating that the deposit was not made by Avista Corp. with the intent of preferring the holders of notes over the other creditors of Avista Corp. or with the intent of defeating, hindering, delaying or defrauding creditors of Avista Corp. or others; and

(8) Avista Corp. must deliver to the trustee an Officers' Certificate and an opinion of counsel (with usual and customary exceptions acceptable to the trustee), each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

#### AMENDMENT, SUPPLEMENT AND WAIVER

Except as provided in the next two succeeding paragraphs, the indenture or the notes may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing default or compliance with any provision of the indenture or the notes may be waived with the consent of the holders of a majority in principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Without the consent of each holder affected, an amendment or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note;

(3) reduce the rate of or change the time for payment of interest on any note;

(4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, on the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, or interest or premium, if any, on the notes; and

(7) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, Avista Corp. and the trustee may amend or supplement the indenture or the notes:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated notes in addition to or in place of certificated notes;
- (3) to provide for the assumption of Avista Corp.'s obligations to holders of notes in the case of a merger or consolidation or sale of all or substantially all of Avista Corp.'s assets;
- (4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any such holder;
- (5) to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act, or
- (6) to evidence and provide the acceptance of the appointment of a successor trustee under the indenture.

#### SATISFACTION AND DISCHARGE

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder except as to:

- (1) Avista Corp.'s right to redeem the notes at its option;
- (2) substitution of apparently mutilated, defaced, destroyed, lost or stolen notes;
- (3) rights of holders to receive payment of principal of and premium, if any, and interest on the notes;
- (4) rights, obligations and immunity of the trustee under the indenture; and
- (5) rights of the holder of notes with respect to any property deposited with the trustee payable to all or any of them,

if:

- (1) either (a) all notes that have been authenticated (except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has theretofore been deposited in trust and thereafter repaid to Avista Corp.) have been delivered to the trustee for cancellation; or (b) a Legal Defeasance has been effected with respect to all notes that have not been so delivered;
- (2) no Default or Event of Default shall have occurred and be continuing on the date Legal Defeasance has occurred or shall occur as a result of such Legal Defeasance and such Legal Defeasance will not result in a breach or violation of, or constitute a default under, any other material instrument to which Avista Corp. is a party or by which Avista Corp. is bound;
- (3) Avista Corp. has paid or caused to be paid all sums payable by it under the indenture; and
- (4) Avista Corp. has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at the maturity date of the notes.

In addition, Avista Corp. must deliver an Officers' Certificate and an Opinion of Counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

## CONCERNING THE TRUSTEE

If the trustee becomes a creditor of Avista Corp., the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default shall occur and be continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

## BOOK-ENTRY, DELIVERY AND FORM

The New Notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the "Global Notes"). Upon issuance, the Global Notes will be deposited upon issuance with the trustee as custodian for The Depository Trust Company ("DTC"), in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See "--Exchange of Global Notes for Certificated Notes." Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of notes in certificated form. In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of the Euroclear System ("Euroclear") and Clearstream Banking ("Clearstream")), which may change from time to time.

## DEPOSITORY PROCEDURES

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them from time to time. Avista Corp. takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised Avista Corp. that DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (collectively, the "Participants") and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised Avista Corp. that, pursuant to procedures established by it:

(1) Upon deposit of the Global Notes representing the Old Notes, DTC credited the accounts of Participants designated by the initial purchasers of the Old Notes with portions of the principal amount of such Global Notes; and

(2) ownership of interests in the Global Notes representing Old Notes are, and ownership of interests in New Notes will be, shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants in DTC's system may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants in such system. Euroclear and Clearstream will hold interests in Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank, S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of Participants, which in turn act on behalf of Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

EXCEPT AS DESCRIBED BELOW, OWNERS OF INTERESTS IN THE GLOBAL NOTES WILL NOT HAVE NOTES REGISTERED IN THEIR NAMES, WILL NOT RECEIVE PHYSICAL DELIVERY OF NOTES IN CERTIFICATED FORM AND WILL NOT BE CONSIDERED THE REGISTERED OWNERS OR "HOLDERS" THEREOF UNDER THE INDENTURE OR THE NOTES FOR ANY PURPOSE.

Payments in respect of the principal of, and interest and premium, if any, on a Global Note registered in the name of DTC or its nominee, will be payable to DTC in its capacity as the registered Holder under the indenture. Under the terms of the indenture, Avista Corp. and the trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, neither Avista Corp., the trustee nor any agent of Avista Corp. or the trustee has or will have any responsibility or liability for:

(1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised Avista Corp. that its current practice, upon receipt of any payment in respect of securities (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or Avista Corp. Neither Avista Corp. nor the trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the notes, and Avista Corp. and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

DTC has also advised Avista Corp. that, transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the applicable transfer and exchange restrictions described herein, cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised Avista Corp. that it will take any action permitted to be taken by a Holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither Avista Corp. nor the trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### EXCHANGE OF GLOBAL NOTES FOR CERTIFICATED NOTES

A Global Note is exchangeable for definitive notes in registered certificated form ("Certificated Notes") if:

- (1) DTC (a) notifies Avista Corp. that it is unwilling or unable to continue as depository for the Global Notes and Avista Corp. fails to appoint a successor depository or (b) has ceased to be a clearing agency registered under the Exchange Act and Avista Corp. fails to appoint a successor depository;
- (2) Avista Corp., at its option, notifies the trustee in writing that it elects to cause the issuance of the Certificated Notes; or
- (3) there shall have occurred and be continuing a Default or Event of Default with respect to the notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures). Any such exchange will be effected through the DTC Deposit/Withdraw at Custodian system and an appropriate adjustment will be made to reflect a decrease in the principal amount of the relevant Global Note.

#### SAME DAY SETTLEMENT AND PAYMENT

Avista Corp. will make payments in respect of the notes represented by the Global Notes (including principal, premium, if any, and interest by wire transfer of immediately available funds to the accounts specified by the Global

Note Holder. Avista Corp. will make all payments of principal, interest and premium with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders thereof or, if no such account is specified, by mailing a check to each such Holder's registered address. The notes represented by the Global Notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. Avista Corp. expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised Avista Corp. that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

#### GOVERNING LAW

The internal laws of the state of New York will govern and be used to construe the indenture without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby.

#### CERTAIN DEFINITIONS

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Acquired Debt" means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control", as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person shall be deemed to be control. For purposes of this definition, the terms "controlling", "controlled by" and "under common control with" shall have correlative meanings.

"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale/Leaseback Transaction) in one or a series of transactions by Avista Corp. or any Restricted Subsidiary to any Person other than Avista Corp. or any Restricted Subsidiary of Avista Corp., of:

(1) all or any of the Capital Stock of any Restricted Subsidiary of Avista Corp.;

(2) all or substantially all of the assets of any operating unit, Facility, division or line of business of Avista Corp. or any Restricted Subsidiary; or



(3) any other property or assets or rights to acquire property or assets of Avista Corp. or any Restricted Subsidiary of Avista Corp. outside of the ordinary course of business of Avista Corp. or such Restricted Subsidiary.

Notwithstanding the preceding, the following items shall not be deemed to be Asset Sales:

(1) any single transaction or series of related transactions that involves assets having a fair market value of less than \$10 million;

(2) an issuance of Equity Interests by a Restricted Subsidiary to Avista Corp. or to another Restricted Subsidiary of Avista Corp.;

(3) any sale or lease of obsolete equipment or other assets that are no longer being used by Avista Corp. or any of its Restricted Subsidiaries;

(4) any primary offering of Common Stock of Avista Communications, Avista Advantage or Avista Labs, or any Subsidiary of any of them, provided that the issuer of such Common Stock is operating substantially the same business as is conducted by such issuer (or in case of a Subsidiary, all or a portion of the same business as is conducted by the respective parent company named above in this clause (4)) as of the date of the indenture;

(5) a Restricted Payment or Permitted Investment that is not prohibited by the covenant described above under the caption "-Certain Covenants--Restricted Payments"; and

(6) any disposition of property or assets by a Restricted Subsidiary of Avista Corp. to Avista Corp. or by Avista Corp. or a Restricted Subsidiary of Avista Corp. to a Restricted Subsidiary of Avista Corp.

"Attributable Debt" means, in respect of a Sale/Leaseback Transaction, as of the time of determination, the present value discounted at the interest rate assumed in making calculations in accordance with GAAP of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction, including any period for which such lease has been extended or may be extended at the option of the lessor.

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. The terms "Beneficially Owns" and "Beneficially Owned" shall have a corresponding meaning.

"Board of Directors" means:

(1) with respect to a corporation, the board of directors of the corporation or any duly authorized committee of such board of directors;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(3) with respect to any other Person, the board or committee of such Person serving a similar function.

"Capital Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"Capital Stock" of any Person means any and all shares, interests, participations or other equivalents, however designated, of corporate stock or other equity participations, including partnership interests, whether general or limited, of the Person.

"Cash Equivalents" means:

(1) United States dollars;

(2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition;

(3) certificates of deposit and eurodollar time deposits with maturities of twelve months or less from the date of acquisition, bankers' acceptances with maturities not exceeding twelve months and overnight bank deposits, in each case, issued or accepted by any financial institution organized under the laws of the United States or any state thereof or the District of Columbia that either (x) has a long-term deposit rating of at least A-2 from Moody's and A from S&P or (y) is at least "adequately capitalized" (as defined in the regulations of its primary federal banking regulator) and (b) has Tier 1 Capital (as defined in such regulations) of not less than \$100,000,000;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper having the highest rating obtainable from Moody's or S&P (or in their absence an equivalent rating from another nationally recognized securities rating agency) and in each case maturing within twelve months after the date of acquisition; and

(6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

"Change of Control" means the occurrence of any of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Avista Corp. and its Restricted Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act);

(2) the adoption of a plan relating to the liquidation or dissolution of Avista Corp. other than in a transaction that complies with the provisions of the covenant described above under "-Certain Covenants--Merger, Consolidation or Sale of Assets";

(3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 35% of the Voting Stock of Avista Corp., measured by voting power rather than number of shares;

(4) the first day on which a majority of the members of the Board of Directors of Avista Corp. are not Continuing Directors; or

(5) Avista Corp. consolidates with, or merges with or into, any Person, or any Person consolidates with, or merges with or into, Avista Corp., in any such event pursuant to a transaction in which any of the outstanding Voting Stock of Avista Corp. or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of Avista Corp. outstanding immediately prior to such transaction is converted into or exchanged for Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of such Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance).

"Commodity Price Protection Obligation" means any forward contract, commodity swap, commodity option or other similar financial agreement or arrangement relating to, or the value of which is dependent on, fluctuations in commodity prices entered into in the ordinary course of business.

"Common Stock" of any Person means any class of Capital Stock of such Person that has no preference, as to dividends or upon liquidation, over any other class of Capital Stock of such Person and that is not convertible into or exchangeable for any other class of Capital Stock or other securities of such Person.

"Consolidated Cash Flow" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus:

(1) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; plus

(2) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs (other than those in existence on or created on the date of the indenture) and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income; plus

(3) depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period, and excluding amortization of power and natural gas cost deferrals, to the extent such deferrals were previously financed with Indebtedness permitted by clause (9) of the definition of Permitted Debt) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; minus

(4) non-cash items increasing such Consolidated Net Income for such period (including power and natural gas cost deferrals, but only to the extent not financed with Indebtedness permitted by clause (9) of the definition of Permitted Debt) in each case, on a consolidated basis and determined in accordance with GAAP.

"Consolidated Net Income" means, with respect to any specified Person for any period, the aggregate of the net income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; provided that:

(1) the net income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Wholly Owned Subsidiary thereof;

(2) the net income of any Restricted Subsidiary shall be excluded to the extent that the declaration or payment of dividends or similar distributions by the Restricted Subsidiary of that net income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders;

(3) the net income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded;

(4) the cumulative effect of a change in accounting principles shall be excluded;

(5) all extraordinary or nonrecurring gains and losses (including without limitation any one-time costs incurred in connection with acquisitions, or regulatory disallowances or write-offs of regulatory assets) shall be excluded; and

(6) any gain or loss realized upon the sale or other disposition of any property, plant or equipment of Avista Corp. or its Restricted Subsidiaries (including pursuant to any sale-and-leaseback arrangement) which is not sold or otherwise disposed of in the ordinary course of business and any gain or loss realized upon the sale or other disposition by Avista Corp. or any Restricted Subsidiary of any Capital Stock of any Person shall be excluded.

"Continuing Directors" means, as of any date of determination, any member of the Board of Directors of Avista Corp. who:

(1) was a member of such Board of Directors on the date of the indenture; or

(2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"Credit Facilities" means one or more debt facilities or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, or letters of credit, in each case, as amended, restated, modified, renewed, refunded, restructured, supplemented, replaced or refinanced in whole or in part from time to time, including without limitation any amendment increasing the amount of Indebtedness incurred or available to be borrowed thereunder, extending the maturity of any Indebtedness incurred thereunder or contemplated thereby or deleting, adding or substituting one or more parties thereto (whether or not with banks or other institutional lenders).

"Currency Hedging Obligations" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect against the fluctuations in currency values entered into in the ordinary course of business and not for speculative purposes.

"Debt Rating" shall mean the rating assigned to the notes offered hereby by Moody's or S&P, as the case may be.

"Default" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"Disinterested Director" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of Avista Corp. who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"Disqualified Stock" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder thereof, in whole or in part, on or prior to the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require Avista Corp. to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale shall not constitute Disqualified Stock if the terms of such Capital Stock provide that Avista Corp. may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "--Certain Covenants--Restricted Payments."

"Eligible Institution" means a commercial banking institution that has combined capital and surplus of not less than \$500 million or its equivalent in foreign currency, whose debt is rated "A" or higher (or the equivalent rating or higher), according to Moody's or S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in

Rule 436 under the Securities Act)), respectively, at the time as of which any investment or rollover therein is made.

"Equity Interests" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"Existing Indebtedness" means Indebtedness of Avista Corp. and its Subsidiaries in existence on the date of the indenture, other than amounts outstanding under Credit Facilities, until such amounts are repaid.

"Facility" means retail electric and natural gas distribution and storage facilities, electric transmission facilities and electric generation and production facilities, and assets related to or used in the operation of such facilities.

"Fixed Charges" means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs (other than those in existence on or created on the date of the indenture) and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations; plus

(2) the consolidated interest of such Person and its Restricted Subsidiaries that was capitalized during such period (excluding interest capitalized in connection with the construction of a new Facility or addition to a Facility, in each case, to the extent such interest is capitalized during the construction of such Facility); plus

(3) any interest expense actually paid on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; plus

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of such Person (other than Disqualified Stock) or to such Person or a Restricted Subsidiary of such Person, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal; in each case, calculated on a consolidated basis and in accordance with GAAP.

"Fixed Charge Coverage Ratio" means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Subsidiaries incurs, assumes, Guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date of the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "Calculation Date"), including the incurrence of the Indebtedness giving rise to the need to make such calculation, then the Fixed Charge Coverage Ratio shall be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom including to refinance other Indebtedness as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter

reference period or subsequent to such reference period and on or prior to the Calculation Date shall be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period shall be calculated on a pro forma basis (calculated in accordance with Regulation S-X under the Securities Act), but without giving effect to clause (3) of the proviso set forth in the definition of Consolidated Net Income;

(2) the consolidated interest expense attributable to interest on any Indebtedness computed on a pro forma basis and (a) bearing a floating interest rate shall be computed as if the rate in effect on the date of computation had been the applicable rate for the entire period and (b) that was not outstanding during the period for which the computation is being made but which bears, at the option of such Person, a fixed or floating rate of interest, shall be computed by applying at the option of such Person either the fixed or floating rate;

(3) the consolidated interest expense attributable to interest on any working capital borrowings under a revolving credit facility computed on a pro forma basis shall be computed based upon the average daily balance of such working capital borrowings during the applicable period; and

(4) acquisitions and dispositions that have been made by any Person that has become a Restricted Subsidiary of Avista Corp. or been merged with or into Avista Corp. or any Restricted Subsidiary of Avista Corp. during the four-quarter reference period, or subsequent to the four-quarter reference period but prior to the Calculation Date, shall be calculated on a pro forma basis, including all of the calculations referred to above, assuming that such acquisitions and dispositions had occurred on the first day of the reference period.

In addition, in calculating the Fixed Charge Coverage Ratio, discontinued operations will be given pro forma effect as follows:

(1) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of on or prior to the Calculation Date, shall be excluded, and

(2) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of on or prior to the Calculation Date, shall be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of Avista Corp. or any of its Restricted Subsidiaries following the Calculation Date.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect (i) with respect to periodic reporting requirements, from time to time, and (ii) otherwise on the date of the indenture.

"Government Securities" means securities issued directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof).

"Guarantee" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"Hedging Obligations" means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements; and

(2) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

"Indebtedness" means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) representing banker's acceptances;
- (4) representing Capital Lease Obligations;
- (5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or
- (6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) appears as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date shall be:

- (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and
- (2) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness; provided that for purposes of determining the amount of any Indebtedness, if recourse with respect to such Indebtedness is limited to such asset, the amount of such Indebtedness shall be limited to the lesser of the fair market value of such asset or the amount of such Indebtedness.

"Investments" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees of Indebtedness or other obligations), advances or capital contributions (excluding commission, travel, entertainment, moving and similar advances or loans to officers, directors, consultants and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. The term "Investment" shall exclude extensions of trade credit on commercially reasonable terms in accordance with normal trade terms. If Avista Corp. or any Subsidiary of Avista Corp. sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of Avista Corp. such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of Avista Corp., Avista Corp. shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Subsidiary not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "--Certain Covenants--Restricted Payments." The acquisition by Avista Corp. or any Subsidiary of Avista Corp. of a Person that holds an Investment in a third Person shall be deemed to be an Investment by Avista Corp. or such Subsidiary in such third Person in an amount equal to the fair market value of the Investment held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "--Certain Covenants--Restricted Payments."

"Lancaster Project" means a 270 MW combined cycle project, presently under construction, in Rathdrum, Idaho, in which Avista Power owns an indirect 49% interest through its wholly-owned subsidiary Avista Rathdrum, LLC. The project is presently scheduled to begin commercial operation in August 2001. All of the output has been sold to Avista Energy under a 25-year capacity sales contract, under which Avista Energy is responsible for dispatch and delivery of fuel to the project.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"Liquidity Condition Date" means the date on which Avista Corp. obtains funding in cash from completed financing transactions, or contractual entitlement to such funding on such date pursuant to definitive credit facilities then in effect and available to be drawn pursuant to arrangements put into effect (or amendments increasing the amount available under existing credit facilities) after the date of the indenture, in an aggregate amount that, when added to the net proceeds of the offering of the Old Notes, is not less than \$475 million.

"Marketable U.S. Securities" means: (i) any time deposit account, money market deposit and certificate of deposit maturing not more than 365 days after the date of acquisition issued by, or time deposit of, an Eligible Institution; (ii) commercial paper maturing not more than 365 days after the date of acquisition issued by a corporation (other than an Affiliate of Avista Corp.) with a rating, at the time as of which any investment therein is made, of "P-1" or higher according to Moody's or "A-1" or higher according to S&P (or such similar equivalent rating by at least one "nationally recognized statistical rating organization" (as defined in Rule 436 under the Securities Act)); (iii) any banker's acceptances or money market deposit accounts issued or offered by an Eligible Institution; (iv) repurchase obligations with a term of not more than 7 days for Government Securities entered into with an Eligible Institution; and (v) any fund investing exclusively in investments of the types described in clauses (i) through (iv) above and or Government Securities.

"Moody's" mean Moody's Investors Service, Inc., and its successors.

"Net Proceeds" means the aggregate cash proceeds and Cash Equivalents received by Avista Corp. or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result thereof, taxes paid or payable as a result thereof, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, any amounts that Avista Corp. may be required by any regulatory authority to refund or repay to customers in respect of or as a result of such Asset Sale, any amounts required to be applied to the repayment of Indebtedness secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"Non-Recourse Debt" means Indebtedness:

(1) as to which neither Avista Corp. nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness but excluding any agreement to provide managerial support), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender; and

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the notes) of Avista Corp. or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.



"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Peaker Turbine Project" means a 95 MW simple cycle project presently under development, currently expected to be located in southwest Washington and currently 100% owned by Avista Power. A letter of intent has been signed for the purchase of the output of the facility for five years under a capacity sales contract for a fixed price per KW-month. The purchaser will be financially responsible for purchasing natural gas to fuel the turbines and for contracting for gas transportation. The turbines are General Electric simple cycle LM6000.

"Permitted Business" means the business of acquiring, developing, constructing, expanding, managing, improving, owning and operating Facilities, as well as any other activities reasonably related, complimentary or ancillary to the foregoing activities (including acquiring and holding reserves), including but not limited to investing in Persons engaged in one or more Permitted Businesses.

"Permitted Debt" has the meaning set forth under "-Certain Other Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock."

"Permitted Investments" means:

(1) any Investment in Avista Corp. or in a Restricted Subsidiary of Avista Corp.; provided, that prior to the Liquidity Condition Date, Avista Corp. and its Restricted Subsidiaries will not make Investments in Subsidiaries of Avista Corp. (other than Avista Energy or Avista Power) exceeding \$35 million in the aggregate; provided further that Avista Corp. may nonetheless make reimbursement to a Subsidiary, pursuant to the Tax Sharing Agreement as in effect on the date of the indenture, in an amount not to exceed the net tax benefit realized by Avista Corp. in any period, as reflected in its consolidated federal income tax return, by reason of losses incurred by such Subsidiary;

(2) any Investment in cash or Cash Equivalents or Marketable U.S. Securities;

(3) any Investment by Avista Corp. or any Subsidiary of Avista Corp. in a Person, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary of Avista Corp.;  
or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Avista Corp. or a Restricted Subsidiary of Avista Corp.;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "--Repurchase at the Option of Holders--Asset Sales";

(5) any Investment in exchange for the issuance of Equity Interests other than Disqualified Stock of Avista Corp.;

(6) Hedging Obligations;

(7) Investments in any of the notes;

(8) Indebtedness of Avista Corp. or a Restricted Subsidiary of Avista Corp. described under clause (5) of the definition of Permitted Debt;

(9) Investments in existence on the date of the indenture or made pursuant to a legally binding written commitment in existence on the date of the indenture;

(10) Guarantees of Indebtedness of a Restricted Subsidiary of Avista Corp. given by Avista Corp. or another Restricted Subsidiary of Avista Corp., in each case, in accordance with the terms of the indenture;

(11) Investments in prepaid expenses, negotiable instruments held for collection and lease, utility and worker's compensation, performance and other similar deposits provided to third parties in the ordinary course of business;

(12) Hedging Obligations, Currency Hedging Obligations and Commodity Price Protection Obligations permitted by the indenture that are entered into in the ordinary course of business;

(13) Investments representing Capital Stock or obligations issued to Avista Corp. or any Restricted Subsidiary of Avista Corp. (i) in settlement of claims against any other Person by reason of a composition or readjustment of debt or a reorganization of any debtor (including customers and suppliers) of Avista Corp. or such Restricted Subsidiary, or (ii) as a result of an Asset Sale in which the Capital Stock of Avista Communications, Avista Advantage or Avista Labs is exchanged for Capital Stock or other securities of another Person, upon completion of which the subject or transferee Person is not a Subsidiary of Avista Corp.;

(14) Investments in the Lancaster Project and the Peaker Turbine Project in an aggregate amount not to exceed \$40 million;

(15) Investments by Avista Corp. or any Restricted Subsidiary in Avista -STEAG, LLC; and

(16) loans or advances, or performance guarantees in support of Avista Energy or Avista Power to customers or suppliers in the ordinary course of business.

"Permitted Liens" means:

(1) Liens securing Indebtedness and other Obligations of Avista Corp. and its Restricted Subsidiaries under Credit Facilities (to the extent that such Indebtedness and Obligations under such Credit Facilities were permitted by the terms of the indenture to be incurred);

(2) Liens in favor of Avista Corp. or a Restricted Subsidiary of Avista Corp.;

(3) Liens on assets or Equity Interests of a Person existing at the time such Person is merged with or into or consolidated with Avista Corp. or any Restricted Subsidiary of Avista Corp.; provided that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with Avista Corp. or the Restricted Subsidiary;

(4) Liens on assets existing at the time of acquisition thereof by Avista Corp. or any Restricted Subsidiary of Avista Corp., provided that such Liens were in existence prior to the contemplation of such acquisition;

(5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds, performance bids, tenders or contracts, statutory and common law landlord's liens or other obligations of a like nature incurred in the ordinary course of business;

(6) Liens existing on the date of the indenture;

(7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, provided that any reserve or other appropriate provision as shall be required in conformity with GAAP shall have been made therefor;

(8) Liens to secure any refinancing, refunding, extension, renewal or replacement (or successive refinancings, refundings, extensions, renewals or replacements) as a whole, or in part, of any Indebtedness secured by any

Lien referred to in the foregoing clauses (3), (4), or (6), provided, however, that (x) such new Lien shall be limited to all or part of the same assets that secured the original Lien (plus improvements on such property) and (y) the Indebtedness secured by such Lien at such time is not increased (other than by an amount necessary to pay fees and expenses, including premiums, related to the refinancing, refunding, extension, renewal or replacement of such Indebtedness);

(9) any Lien securing Indebtedness permitted to be incurred under Hedging Obligations or otherwise incurred to hedge interest rate risk or risks of commodity price fluctuations;

(10) Liens securing Indebtedness relating to governmental obligations the interest on which is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (or any successor provision of law), for the purpose of financing or refinancing, in whole or in part, costs of acquisition or construction of property to be used by Avista Corp., to the extent that the Lien which secures such secured Indebtedness is required either by applicable law or by the issuer of such governmental obligations or is otherwise necessary in order to establish or maintain such exclusion from gross income;

(11) any Lien securing Capital Lease Obligations or other Indebtedness incurred pursuant to clause (8) of the definition of Permitted Debt; and

(12) any Lien securing Indebtedness permitted to be incurred pursuant to clause (9) of the definition of Permitted Debt.

"Permitted Refinancing Indebtedness" means any Indebtedness of Avista Corp. or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, restructure, supplement, defease or refund other Indebtedness of Avista Corp. or any of its Restricted Subsidiaries (other than intercompany Indebtedness); provided that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so extended, refinanced, renewed, replaced, restructured, supplemented, defeased or refunded (plus all accrued interest thereon and the amount of all expenses and premiums incurred in connection therewith);

(2) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the notes on terms at least as favorable to the holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(3) Indebtedness is incurred by Avista Corp. if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded was Indebtedness of Avista Corp.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government, governmental subdivision or other entity.

"Restricted Investment" means an Investment other than a Permitted Investment. "Restricted Subsidiary" means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

"RTO Transaction" means an Asset Sale entered into in connection with the formation of a regional transmission organization pursuant to or in a manner consistent with regulatory requirements applicable to Avista Corp.

"Sale/Leaseback Transaction" means an arrangement relating to property owned as of the date of the indenture or thereafter acquired whereby Avista Corp. or a Restricted Subsidiary transfers such property to a Person and leases

it back from such Person, other than leases for a term of not more than 36 months or between Avista Corp. and a Restricted Subsidiary or between Restricted Subsidiaries.

"S&P" means Standard & Poor's, and its successors.

"Significant Subsidiary" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date hereof.

"Stated Maturity" means, with respect to any installment of interest or principal on any series of Indebtedness, or any redemption or similar payment in respect of Disqualified Stock, the date on which such payment was scheduled to be paid in the original documentation governing such Indebtedness or Disqualified Stock, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal, or made such redemption or other payment, prior to the date originally scheduled for the payment thereof.

"Subsidiary" means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

"Tax Sharing Agreement" means the Tax Sharing Agreement among Avista Corp. and its Subsidiaries as in effect on the date of the indenture.

"Unrestricted Subsidiary" means any Subsidiary of Avista Corp. that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) is not party to any agreement, contract, arrangement or understanding with Avista Corp. or any Restricted Subsidiary of Avista Corp. unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to Avista Corp. or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Avista Corp.;

(3) is a Person with respect to which neither Avista Corp. nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Avista Corp. or any of its Restricted Subsidiaries.

Any designation of a Subsidiary of Avista Corp. as an Unrestricted Subsidiary shall be evidenced to the trustee by filing with the trustee a certified copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "--Certain Covenants--Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary of Avista Corp. as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "--Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock", Avista Corp. shall be in default of such covenant. The Board of Directors of Avista

Corp. may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided that such designation shall be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of Avista Corp. of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation shall only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "--Certain Covenants--Incurrence of Indebtedness and Issuance of Preferred Stock", calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness or Disqualified Stock at any date, the number of years obtained by dividing (i) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments or principal or redemption or similar payment, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment, by (ii) the sum of all such payments.

"Wholly Owned Subsidiary" of any specified Person means a Subsidiary of such Person all of the outstanding capital stock or other ownership interests of which (other than directors' qualifying shares) will at the time be owned by such Person or by one or more Wholly Owned Subsidiaries of such Person and one or more Wholly Owned Subsidiaries of such Person.

#### CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section describes the material United States federal income tax consequences of exchanging the Old Notes for New Notes and of owning and disposing of notes. This section reflects the opinion of Thelen Reid & Priest LLP, counsel to Avista Corp. This section applies to you only if you acquired the Old Notes in the offering at the offering price and you hold your notes as capital assets for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- o a dealer in securities or currencies,
- o a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- o a bank,
- o a life insurance company,
- o a tax-exempt organization,
- o a person that owns notes that are a hedge or that are hedged against interest rate risks,
- o a person that owns notes as part of a straddle or conversion transaction for tax purposes, or
- o a person whose functional currency for tax purposes is not the U.S. dollar.

If you purchase notes at a price other than the offering price, the amortizable bond premium or market discount rules may also apply to you. You should consult your tax advisor regarding this possibility.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

## UNITED STATES HOLDERS

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of a note and you are:

- o a citizen or resident of the United States,
- o a domestic corporation or partnership,
- o an estate whose income is subject to United States federal income tax regardless of its source, or
- o a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this subsection does not apply to you and you should refer to "United States Alien Holders" below.

### Exchange of Old Notes for New Notes

An exchange of Old Notes for New Notes will not be a taxable event for federal income tax purposes. Rather, the New Notes will be treated as a continuation of the Old Notes in the hands of a United States holder. As a result, you will not recognize any income, gain or loss for federal income tax purposes upon an exchange of Old Notes for New Notes, and you will have the same tax basis and holding period in the New Notes as you had in the Old Notes.

### Payments of Interest

You will be taxed on interest on your notes as ordinary income at the time you receive the interest or when it accrues, depending on your method of accounting for tax purposes.

### Purchase, Sale and Retirement of the Notes

Your tax basis in your Old Notes generally will be their cost, and your tax basis in any New Notes acquired in the Exchange Offer will be equal to your tax basis in the Old Notes surrendered. You will generally recognize capital gain or loss on the sale or retirement of notes equal to the difference between the amount you realize on the sale or retirement, excluding any amounts attributable to accrued but unpaid interest, and your tax basis in your notes. Capital gain of a noncorporate United States holder is generally taxed at a maximum rate of 20% where the property is held more than one year.

## UNITED STATES ALIEN HOLDERS

This subsection describes the tax consequences to a United States alien holder. You are a United States alien holder if you are the beneficial owner of a note and are, for United States federal income tax purposes:

- o a nonresident alien individual,
- o a foreign corporation,
- o a foreign partnership,
- o an estate unless its income is subject to United States federal income tax regardless of its source, or
- o a trust unless a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are a United States holder, this section does not apply to you.

An exchange of Old Notes for New Notes will not constitute a taxable event for federal income tax purposes. Rather, the New Notes will be treated as a continuation of the Old Notes in the hands of a United States alien holder. As a result, you will not recognize any income, gain or loss for federal income tax purposes upon an exchange of Old Notes for New Notes, and you will have the same tax basis and holding period in the New Notes as you had in the Old Notes.

Under United States federal income and estate tax law, and subject to the discussion of backup withholding below, if you are a United States alien holder of a note:

- o we and other U.S. payors generally will not be required to deduct United States withholding tax from payments of principal, premium, if any, and interest to you if, in the case of payments of interest:
  - (1) you do not actually or constructively own 10% or more of the total combined voting power of all classes of stock of Avista Corp. entitled to vote,
  - (2) you are not a controlled foreign corporation that is related to Avista Corp. through stock ownership,
  - (3) your income or gain from the note is not effectively connected with a trade or business that you conduct within the United States, and
  - (4) either (i) you furnish the U.S. payor an Internal Revenue Service Form W-8BEN certifying under penalties of perjury that you are not a United States person, or (ii) the payor can otherwise be satisfied that you are not a United States person by relying on account documentation or other evidence as prescribed in Treasury regulations. However, this requirement will not be considered satisfied if the payor has actual knowledge or reason to know that you are a United States person notwithstanding the certificate or other documentation.
- o no deduction for any United States federal withholding tax will be made from any gain that you realize on the sale or exchange of your note, including the exchange of Old Notes for New Notes.

We and other payors are required to report payments of interest on your notes on Internal Revenue Service Form 1042-S even if the payments are not otherwise subject to information reporting requirements.

If you are engaged in a trade or business within the United States and the interest on the note is effectively connected with your United States business, the interest and any gain on the note will not be subject to withholding if you have provided the payor an Internal Revenue Service Form W-8 as prescribed in the Treasury regulations. However, interest on a note that is effectively connected with your United States business will be subject to United States taxation in the same manner as applies to United States holders. In addition, if you are entitled to the benefits of a tax treaty with the United States, interest and gain from the note will generally not be taxable, even if effectively connected with a United States trade or business, unless you also have a permanent establishment in the United States to which the interest or gain is attributable. In order to claim benefits under a tax treaty with the United States, you must furnish an Internal Revenue Service Form W-8BEN to the payor.

Further, a note held by an individual who at death is not a citizen or resident of the United States will not be includible in the individual's gross estate for United States federal estate tax purposes if:

- o the decedent did not actually or constructively own 10% or more of the total combined voting power of all classes of stock of Avista Corp. entitled to vote at the time of death, and
- o the income on the note would not have been effectively connected with a United States trade or business of the decedent at the same time.

## BACKUP WITHHOLDING AND INFORMATION REPORTING

We and other payors, including brokers, may be required to report to you and to the Internal Revenue Service any payments of principal, premium and interest on your note and the amount of any proceeds from the sale or exchange of your note. As described more fully below, we and other payors may also be required to make "backup withholding" from payments of principal, premium, interest and sales proceeds if you fail to provide an accurate taxpayer identification number or otherwise establish an exemption from backup withholding.

Backup withholding is not an additional tax. If you are subject to backup withholding, you may obtain a credit or refund of the amount withheld by filing the required information with the Internal Revenue Service.

### UNITED STATES HOLDERS

In general, if you are a noncorporate United States holder, we and other payors are required to report to the Internal Revenue Service all payments of principal, any premium and interest on your note. In addition, we and other payors are required to report to the Internal Revenue Service any payment of proceeds of the sale of your note before maturity within the United States. Additionally, backup withholding at a rate of 31% will apply to any payments if you fail to provide an accurate taxpayer identification number, or you are notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

### UNITED STATES ALIEN HOLDERS

In general, payments of principal, premium or interest made by us and other payors to you will not be subject to backup withholding and information reporting, provided that the certification requirements described above under "United States Alien Holders" are satisfied or you otherwise establish an exemption.

In general, proceeds of your sale of a note will not be subject to backup withholding or information reporting if:

- o you furnish your broker an Internal Revenue Service Form W-8BEN certifying under penalties of perjury that you are not a United States person, or
- o your broker possesses other documentation concerning your account on which the broker is permitted to rely under Treasury regulations to establish that you are a non-United States person, or
- o you otherwise establish an exemption.

If you are not exempted from backup withholding and information reporting under the preceding paragraph:

- o Backup withholding and information reporting will apply to the proceeds of any sale that you make through the United States office of any broker, foreign or domestic.
- o Information reporting will also apply to the proceeds of sales that are made through a foreign office of a broker if the proceeds are paid into a United States account, or such proceeds or the confirmation of the sale are mailed to you at a United States address, or if you have opened an account with a United States office of your broker, or regularly communicated with the broker from the United States concerning the sale in question and other sales, or negotiated the sale in question through the broker's United States office. Backup withholding will also apply unless the proceeds of such a sale are paid to an account maintained at a bank or other financial institution located outside the United States.
- o Information reporting, but not backup withholding, will apply to sales made through a foreign office of a broker that is a United States person, or that is a foreign corporation or partnership controlled by U.S. persons or that derives more than 50% of its income from U.S.



business activities over a three-year period as specified in the Treasury regulations.

Notwithstanding any withholding certificate or documentary evidence in a broker's possession, a broker who has actual knowledge or reason to know that you are a United States person will be required to make backup withholdings and file information reports with the Internal Revenue Service if the broker is a U.S. person or is a foreign person that has a U.S. connection of the type discussed in the last bullet point of the preceding paragraph.

#### PLAN OF DISTRIBUTION

As discussed under THE EXCHANGE OFFER, based on an interpretation of the staff of the SEC, New Notes issued pursuant to the Exchange Offer may be offered for resale and resold or otherwise transferred by any Holder of such New Notes (other than any such Holder which is an "affiliate" of Avista Corp. within the meaning of Rule 405 under the Securities Act and except as otherwise discussed below with respect to Holders which are broker-dealers) without compliance with the registration and prospectus delivery requirements of the Securities Act so long as such New Notes are acquired in the ordinary course of such Holder's business and such Holder has no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of such New Notes.

Each broker-dealer that receives New Notes for its own account in exchange for Old Notes which were acquired by such broker-dealer as a result of market-making activities or other trading activities must, and must agree to, deliver a prospectus in connection with any resale of such New Notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. Avista Corp. will for a period of 90 days after the Expiration Date make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until \_\_\_\_\_, 2001, all dealers effecting transactions in the New Notes may be required to deliver a prospectus.

New Notes received by broker-dealers for their own account in the Exchange Offer as described above may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such New Notes. Any broker-dealer that resells New Notes that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such New Notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of New Notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

The interpretation of the staff of the SEC referred to in the first paragraph of this section does not apply to, and this prospectus may not be used in connection with, the resale by any broker-dealer of any New Notes received in exchange for an unsold allotment of Old Notes purchased directly from Avista Corp.

Avista Corp. will not receive any proceeds from the issuance of the New Notes pursuant to the Exchange Offer or from any subsequent sale of the New Notes. Avista Corp. has agreed to pay all expenses incident to the Exchange Offer other than commissions or concessions of any brokers or dealers and expenses of counsel for the holders of the New Notes and will indemnify the holders of the New Notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

#### WHERE YOU CAN FIND MORE INFORMATION

Avista Corp. files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document Avista Corp. files at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Avista Corp. SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>. However, information on this website does not constitute a part of this prospectus.

During 2001, Avista Corp. has filed the following documents with the SEC pursuant to the Exchange Act:

- o Annual Report on Form 10-K for the year ended December 31, 2000, as amended by Form 10-K/A (the "Form 10-K").
- o Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- o Current Report on Form 8-K filed May 2, 2001.

These documents, as well as any other documents subsequently filed with the SEC before the termination of the offering of the New Notes, are incorporated herein by reference and are considered to be part of this prospectus. Later information contained in this prospectus updates and supersedes the information set forth in the Form 10-K and any other incorporated documents.

#### LEGAL MATTERS

The validity of the New Notes will be passed upon for Avista Corp. by Thelen Reid & Priest LLP and Heller Ehrman White & McAuliffe LLP. In addition, matters of federal income tax law and federal securities law will be passed upon by Thelen Reid & Priest LLP. In giving their opinion, Thelen Reid & Priest LLP may rely as to matters of Washington, California, Idaho, Montana and Oregon law upon the opinion of Heller Ehrman White & McAuliffe LLP.

#### EXPERTS

The financial statements and the related financial statement schedules incorporated in this prospectus by reference from Avista Corp.'s Annual Report on Form 10-K for the year ended December 31, 2000 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

PART II.

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article Seventh of the Registrant's Restated Articles of Incorporation ("Articles") provides, in part, as follows:

"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 any 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. "

The Registrant has entered into indemnification agreements with each director as contemplated in Article Seventh of the Articles.

Reference is made to Revised Code of Washington 23B.08.510, which sets forth the extent to which indemnification is permitted under the laws of the State of Washington.

Article IX of the Registrant's Bylaws contains an indemnification provision similar to that contained in the Articles and, in addition, provides in part as follows:

"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."

Insurance is maintained on a regular basis (and not specifically in connection with this offering) against liabilities arising on the part of directors and officers out of their performance in such capacities or arising on the part of the Registrant out of its foregoing indemnification provisions, subject to certain exclusions and to the policy limits.

ITEM 21. EXHIBITS.

Reference is made to the Exhibit Index on p. II-6 hereof.

ITEM 22. UNDERTAKINGS.

The undersigned Registrant hereby undertakes:

(1) That, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each

filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(2) To respond to requests for information that is incorporated by reference into the prospectus pursuant to item 4,10(b), 11 or 13 of Form S-4, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of this registration statement through the date of responding to the request.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted against the Registrant by such director, officer or controlling person in connection with the securities being registered, such Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

POWER OF ATTORNEY

The Registrant hereby appoints each Agent for Service named in this registration statement as its attorney-in-fact to sign in its name and behalf, and to file with the Securities and Exchange Commission any and all amendments, including post effective amendments, to this registration statement, and each director and/or officer of the Registrant whose signature appears below hereby appoints each such Agent for Service as his or her attorney-in-fact with like authority to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission, any and all such amendments.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Spokane and State of Washington on the 31st day of May, 2001.

AVISTA CORPORATION

/s/ JON E. ELIASSEN

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Senior Vice President  
and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE	TITLE	DATES
/s/ GARY G. ELY ----- Gary G. Ely (Director, President and Chief Executive Officer)	Director and Principal Executive Officer	May 31, 2001
/s/ JON E. ELIASSEN ----- Jon E. Eliassen (Senior Vice President and Chief Financial Officer)	Principal Financial and Accounting Officer	May 31, 2001
/s/ ERIK J. ANDERSON ----- Erik. J. Anderson	Director	May 31, 2001
/s/ KRISTIANNE BLAKE ----- Kristianne Blake	Director	May 31, 2001

/s/ D.A. CLACK

-----  
David A. Clack

Director

May 31, 2001

/s/ S.M.R. JEWELL

-----  
Sarah M. R. (Sally) Jewell

Director

May 31, 2001

/s/ J.F. KELLY

-----  
John F. Kelly

Director

May 31, 2001

/s/ JESSIE J. KNIGHT JR.

-----  
Jessie J. Knight, Jr.

Director

May 31, 2001

/s/ EUGENE W. MEYER

-----  
Eugene W. Meyer

Director

May 31, 2001

/s/ BOBBY SCHMIDT

-----  
Bobby Schmidt

Director

May 31, 2001

/s/ R. JOHN TAYLOR

-----  
R. John Taylor

Director

May 31, 2001

/s/ DANIEL J. ZALOUDEK

-----  
Daniel J. Zaloudek

Director

May 31, 2001

CONSENT

We consent to the incorporation by reference in this Registration Statement of Avista Corporation on Form S-4 of our report dated February 2, 2001 (February 26, 2001 as to Note 22), appearing in the Annual Report on Form 10-K of Avista Corporation for the year ended December 31, 2000 and to the reference to us under the heading "Experts" in the Prospectus, which is part of this Registration Statement.

/s/ Deloitte & Touche LLP

Seattle, Washington  
June 1, 2001

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
4(a)	- Indenture dated as of April 3, 2001, by and among Avista Corporation and Chase Manhattan Bank and Trust Company, National Association, as Trustee (filed as Exhibit 4(f) to Quarterly Report on Form 10-Q for quarter ended March 31, 2001).
4(b)	- Registration Rights Agreement between Avista Corporation and Goldman Sachs & Co.
4(c)	- Form of Letter of Transmittal.
5(a)	- Opinion of Heller Ehrman White & McAuliffe LLP.
5(b)	- Opinion of Thelen Reid & Priest LLP.
8	- Opinion as to tax matters of Thelen Reid & Priest LLP (contained in their opinion filed as Exhibit 5(b)) and 8.
23(a)	- Consents of Heller Ehrman White & McAuliffe LLP and Thelen Reid & Priest LLP are contained in their opinions filed as Exhibits 5(a) and 5(b) and 8, respectively.
23(b)	- Consent of Deloitte & Touche LLP (contained on page II-5).
24	- Power of Attorney (contained on page II-3).
25	- Statement of Eligibility of Trustee on Form T-1 of Chase Manhattan Bank and Trust Company, National Association.



## AVISTA CORPORATION

9.75% SENIOR NOTES DUE JUNE 1, 2008

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EXCHANGE AND REGISTRATION RIGHTS AGREEMENT  
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April 3, 2001

Goldman, Sachs & Co.  
85 Broad Street  
New York, New York 10004

Ladies and Gentlemen:

Avista Corporation, a Washington corporation (the "Company"), proposes to issue and sell to the Purchasers (as defined herein) upon the terms set forth in the Purchase Agreement (as defined herein) its 9.75% Senior Notes due June 1, 2008. As an inducement to the Purchasers to enter into the Purchase Agreement and in satisfaction of a condition to the obligations of the Purchasers thereunder, the Company agrees with the Purchasers for the benefit of holders (as defined herein) from time to time of the Registrable Securities (as defined herein) as follows:

1. Certain Definitions. For purposes of this Exchange and Registration Rights Agreement, the following terms shall have the following respective meanings:

"Base Interest" shall mean the interest that would otherwise accrue on the Securities under the terms thereof and the Indenture, without giving effect to the provisions of this Agreement.

The term "broker-dealer" shall mean any broker or dealer registered with the Commission under the Exchange Act.

"Closing Date" shall mean the date on which the Securities are initially issued.

"Commission" shall mean the United States Securities and Exchange Commission, or any other federal agency at the time administering the Exchange Act or the Securities Act, whichever is the relevant statute for the particular purpose.

"Effective Time," in the case of (i) an Exchange Registration, shall mean the time and date as of which the Commission declares the Exchange Registration Statement effective or as of which the Exchange Registration Statement otherwise becomes effective and (ii) a Shelf Registration, shall mean the time and date as of which the Commission declares the Shelf Registration Statement effective or as of which the Shelf Registration Statement otherwise becomes effective.

"Electing Holder" shall mean any holder of Registrable Securities that has returned a completed and signed Notice and Questionnaire to the Company in accordance with Section 3(d)(ii) or 3(d)(iii) hereof.

"Exchange Act" shall mean the Securities Exchange Act of 1934, or any successor thereto, as the same shall be amended from time to time.

"Exchange Offer" shall have the meaning assigned thereto in Section 2(a) hereof.

"Exchange Registration" shall have the meaning assigned thereto in Section 3(c) hereof.

"Exchange Registration Statement" shall have the meaning assigned thereto in Section 2(a) hereof.

"Exchange Securities" shall have the meaning assigned thereto in Section 2(a) hereof.

The term "holder" shall mean each of the Purchasers and other persons who acquire Registrable Securities from time to time (including any successors or assigns), in each case for so long as such person owns any Registrable Securities.

"Indenture" shall mean the Indenture, dated as of April 3, 2001, between the Company and Chase Manhattan Bank and Trust Company, National Association, as Trustee, as the same shall be amended from time to time.

"Liquidated Damages" shall have the meaning assigned thereto in Section 2(c) hereof.

"Notice and Questionnaire" means a Notice of Registration Statement and Selling Securityholder Questionnaire substantially in the form of Exhibit A hereto.

The term "person" shall mean a corporation, association, partnership,

organization, business, individual, government or political subdivision thereof or governmental agency.

"Purchase Agreement" shall mean the Purchase Agreement, dated as of March 29, 2001, between the Purchasers and the Company relating to the Securities.

"Purchasers" shall mean the Purchasers named in Schedule I to the Purchase Agreement.

"Registrable Securities" shall mean the Securities; provided, however, that a Security shall cease to be a Registrable Security when (i) in the circumstances contemplated by Section 2(a) hereof, the Security has been exchanged for an Exchange Security in an Exchange Offer as contemplated in Section 2(a) hereof (provided that any Exchange Security that, pursuant to the next to last sentence of Section 2(a), is included in a prospectus for use in connection with resales by broker-dealers shall be deemed to be a Registrable Security with respect to Sections 5, 6 and 9 until resale of such Registrable Security has been effected within the 180-day period referred to in Section 2(a)(4)); (ii) in the circumstances contemplated by Section 2(b) hereof, a Shelf Registration Statement registering such Security under the Securities Act has been declared or becomes effective and such Security has been sold or otherwise transferred by the holder thereof pursuant to and in a manner contemplated by such effective Shelf Registration Statement; (iii) such Security is sold pursuant to Rule 144 under circumstances in which any legend borne by such Security relating to

restrictions on transferability thereof, under the Securities Act or otherwise, is removed by the Company or pursuant to the Indenture; (iv) such Security is eligible to be sold pursuant to paragraph (k) of Rule 144; or (v) such Security shall cease to be outstanding.

"Registration Default" shall have the meaning assigned thereto in Section 2(c) hereof.

"Registration Expenses" shall have the meaning assigned thereto in Section 4 hereof.

"Resale Period" shall have the meaning assigned thereto in Section 2(a) hereof.

"Restricted Holder" shall mean (i) a holder that is an affiliate of the Company within the meaning of Rule 405, (ii) a holder who acquires Exchange Securities outside the ordinary course of such holder's business, (iii) a holder who has arrangements or understandings with any person to participate in the Exchange Offer for the purpose of distributing Exchange Securities and (iv) a holder that is a broker-dealer, but only with respect to Exchange Securities received by such broker-dealer pursuant to an Exchange Offer in exchange for Registrable Securities acquired by the broker-dealer directly from the Company.

"Rule 144," "Rule 405" and "Rule 415" shall mean, in each case, such rule promulgated under the Securities Act (or any successor provision), as the same shall be amended from time to time.

"Securities" shall mean, collectively, the 9.75% Senior Notes due June 1, 2008 of the Company to be issued and sold to the Purchasers, and securities issued in exchange therefor or in lieu thereof pursuant to the Indenture.

"Securities Act" shall mean the Securities Act of 1933, or any successor thereto, as the same shall be amended from time to time.

"Shelf Registration" shall have the meaning assigned thereto in Section 2(b) hereof.

"Shelf Registration Statement" shall have the meaning assigned thereto in Section 2(b) hereof.

"Trust Indenture Act" shall mean the Trust Indenture Act of 1939, or any successor thereto, and the rules, regulations and forms promulgated thereunder, all as the same shall be amended from time to time.

Unless the context otherwise requires, any reference herein to a "Section" or "clause" refers to a Section or clause, as the case may be, of this Exchange and Registration Rights Agreement, and the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Exchange and Registration Rights Agreement as a whole and not to any particular Section or other subdivision.

## 2. Registration Under the Securities Act.

(a) Except as set forth in Section 2(b) below, the Company agrees to file under the Securities Act, as soon as practicable, but no later than 90 days after the Closing Date, a registration statement relating to an offer to exchange (such registration statement, the "Exchange Registration

Statement", and such offer, the "Exchange Offer") any and all of the Securities for a like aggregate principal amount of debt securities issued by the Company, which debt securities are substantially identical to the Securities (and are entitled to the benefits of a trust indenture which is substantially identical to the Indenture or is the Indenture and which has been qualified under the Trust Indenture Act), except that they have been registered pursuant to an effective registration statement under the Securities Act and do not contain provisions for the liquidated damages contemplated in Section 2(c) below (such new debt securities hereinafter called "Exchange Securities"). The Company agrees to use all commercially reasonable efforts to cause the Exchange Registration Statement to become effective under the Securities Act as soon as practicable, but no later than 180 days after the Closing Date. The Exchange Offer will be registered under the Securities Act on the appropriate form and will comply with all applicable tender offer rules and regulations under the Exchange Act. The Company further agrees to use its best efforts to commence and complete the Exchange Offer promptly, but no later than 45 days after such registration statement has become effective, hold the Exchange Offer open for at least 30 days and exchange Exchange Securities for all Registrable Securities that have been properly tendered and not withdrawn on or prior to the expiration of the Exchange Offer. The Exchange Offer will be deemed to have been "completed" only if the debt securities received in the Exchange Offer by holders other than Restricted Holders are, upon receipt, transferable by each such holder without restriction under the Securities Act and the Exchange Act and without material restrictions under the blue sky or securities laws of a substantial majority of the states of the United States of America. The Exchange Offer shall be deemed to have been completed upon the earlier to occur of (i) the Company having exchanged the Exchange Securities for all outstanding Registrable Securities pursuant to the Exchange Offer and (ii) the Company having exchanged, pursuant to the Exchange Offer, Exchange Securities for all Registrable Securities that have been properly tendered and not withdrawn before the expiration of the Exchange Offer, which shall be on a date that is at least 30 days following the commencement of the Exchange Offer. The Company agrees (x) to include in the Exchange Registration Statement a prospectus for use in any resale by any holder of Exchange Securities that is a broker-dealer and (y) to keep such Exchange Registration Statement effective for a period (the "Resale Period") beginning when Exchange Securities are first issued in the Exchange Offer and ending upon the earlier of the expiration of the 180th day after the Exchange Offer has been completed or such time as such broker-dealers no longer own any Registrable Securities. With respect to such Exchange Registration Statement, such holders shall have the benefit of the rights of indemnification and contribution set forth in Sections 6(a), (c), (d) and (e) hereof.

(b) If (i) on or prior to the time the Exchange Offer is completed, existing Commission interpretations are changed such that the debt securities received by holders other than Restricted Holders in the Exchange Offer are not or would not be, upon receipt, transferable by each such holder without restriction under the Securities Act, (ii) the Exchange Offer has not been completed within 225 days following the Closing Date or (iii) the Exchange Offer is not available to any holder of the Securities, the Company shall, in lieu of (or, in the case of clause (iii), in addition to) conducting the Exchange Offer contemplated by Section 2(a), file under the Securities Act as soon as practicable, but no later than 30 days after the time such obligation to file arises, a "shelf" registration statement providing for the registration of, and the sale on a continuous or delayed basis by the holders of, all of the Registrable Securities, pursuant to Rule 415 or any similar rule that may be adopted by the Commission (such filing, the "Shelf Registration" and such registration statement, the "Shelf Registration Statement"). The Company agrees to use all commercially reasonable efforts (x) to cause the Shelf Registration Statement to become

or be declared effective no later than 120 days after such Shelf Registration Statement is filed and to keep such Shelf Registration Statement continuously effective for a period ending on the earlier of the second anniversary of the Effective Time or such time as there are no longer any Registrable Securities outstanding, provided, however, that no holder shall be entitled to be named as a selling securityholder in the Shelf Registration Statement or to use the prospectus forming a part thereof for resales of Registrable Securities unless such holder is an Electing Holder, and (y) after the Effective Time of the Shelf Registration Statement, promptly upon the request of any holder of Registrable Securities that is not then an Electing Holder, to take any action reasonably necessary to enable such holder to use the prospectus forming a part thereof for resales of Registrable Securities, including, without limitation, any action necessary to identify such holder as a selling securityholder in the Shelf Registration Statement, provided, however, that nothing in this Clause (y) shall relieve any such holder of the obligation to return a completed and signed Notice and Questionnaire to the Company in accordance with Section 3(d)(iii) hereof. The Company further agrees to supplement or make amendments to the Shelf Registration Statement, as and when required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration Statement or by the Securities Act or rules and regulations thereunder for shelf registration, and the Company agrees to furnish to each Electing Holder copies of any such supplement or amendment prior to its being used or promptly following its filing with the Commission. Notwithstanding the foregoing, if the Board of Directors of the Company determines in good faith that it is in the best interests of the Company not to disclose the existence of or facts surrounding any proposed or pending material corporate transaction involving the Company, the Company may allow the Shelf Registration Statement to fail to be effective and usable as a result of such nondisclosure for up to 60 days during the two year period of effectiveness required by Section 2 hereof, but in no event for any period in excess of 30 consecutive days.

(c) In the event that (i) the Company has not filed the Exchange Registration Statement or Shelf Registration Statement on or before the date on which such registration statement is required to be filed pursuant to Section 2(a) or 2(b), respectively, or (ii) such Exchange Registration Statement or Shelf Registration Statement has not become effective or been declared effective by the Commission on or before the date on which such registration statement is required to become or be declared effective pursuant to Section 2(a) or 2(b), respectively, or (iii) the Exchange Offer has not been completed within 45 days after the initial effective date of the Exchange Registration Statement relating to the Exchange Offer (if the Exchange Offer is then required to be made) or (iv) any Exchange Registration Statement or Shelf Registration Statement required by Section 2(a) or 2(b) hereof is filed and declared effective but shall thereafter either be withdrawn by the Company or shall become subject to an effective stop order issued pursuant to Section 8(d) of the Securities Act suspending the effectiveness of such registration statement (except as specifically permitted herein) without being succeeded immediately by an additional registration statement filed and declared effective (each such event referred to in clauses (i) through (iv), a "Registration Default" and each period during which a Registration Default has occurred and is continuing, a "Registration Default Period"), then, as liquidated damages for such Registration Default, subject to the provisions of Section 9(b), liquidated damages ("Liquidated Damages"), in addition to the Base Interest, shall accrue at a per annum rate of 0.25% for the first 90 days of the Registration Default Period, at a per annum rate of 0.50% for the second 90 days of the Registration Default Period, at a per annum rate of 0.75% for

the third 90 days of the Registration Default Period and at a per annum rate of 1.0% thereafter for the remaining portion of the Registration Default Period.

(d) The Company shall take all actions necessary or advisable to be taken by it to ensure that the transactions contemplated herein are effected as so contemplated.

(e) Any reference herein to a registration statement as of any time shall be deemed to include any document incorporated, or deemed to be incorporated, therein by reference as of such time and any reference herein to any post-effective amendment to a registration statement as of any time shall be deemed to include any document incorporated, or deemed to be incorporated, therein by reference as of such time.

### 3. Registration Procedures.

If the Company files a registration statement pursuant to Section 2(a) or Section 2(b), the following provisions shall apply:

(a) At or before the Effective Time of the Exchange Registration Statement or the Shelf Registration Statement, as the case may be, the Company shall qualify the Indenture under the Trust Indenture Act of 1939.

(b) In the event that such qualification would require the appointment of a new trustee under the Indenture, the Company shall appoint a new trustee thereunder pursuant to the applicable provisions of the Indenture.

(c) In connection with the Company's obligations with respect to the registration of Exchange Securities as contemplated by Section 2(a) (the "Exchange Registration"), if applicable, the Company shall, as soon as practicable (or as otherwise specified):

(i) prepare and file with the Commission, as soon as practicable but no later than 90 days after the Closing Date, an Exchange Registration Statement on any form which may be utilized by the Company and which shall permit the Exchange Offer and resales of Exchange Securities by broker-dealers during the Resale Period to be effected as contemplated by Section 2(a), and use commercially reasonable efforts to cause such Exchange Registration Statement to become effective as soon as practicable thereafter, but no later than 180 days after the Closing Date;

(ii) as soon as practicable prepare and file with the Commission such amendments and supplements to such Exchange Registration Statement and the prospectus included therein as may be necessary to effect and maintain the effectiveness of such Exchange Registration Statement for the periods and purposes contemplated in Section 2(a) hereof and as may be required by the applicable rules and regulations of the Commission and the instructions applicable to the form of such Exchange Registration Statement, and promptly provide each broker-dealer holding Exchange Securities with such number of copies of the prospectus included therein (as then amended or supplemented), in conformity in all material respects with the requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder, as such broker-dealer reasonably may request in writing to the Company prior to the expiration of the Resale Period, for use in connection with resales of Exchange Securities;

(iii) promptly notify each broker-dealer that has requested or received copies of the prospectus included in such registration statement, and confirm such advice in writing, (A) when such Exchange Registration Statement or the prospectus included therein or any prospectus amendment or supplement or post-effective amendment has been filed, and, with respect to such Exchange Registration Statement or any post-effective amendment, when the same has become effective, (B) of any comments by the Commission and by the blue sky or securities commissioner or regulator of any state with respect thereto or any request by the Commission for amendments or supplements to such Exchange Registration Statement or prospectus or for additional information, (C) of the issuance by the Commission of any stop order suspending the effectiveness of such Exchange Registration Statement or the initiation or threatening of any proceedings for that purpose, (D) if at any time the representations and warranties of the Company contemplated by Section 5 or contained in any underwriting agreement or similar agreement relating to the offering cease to be true and correct in all material respects, (E) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Exchange Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, or (F) at any time during the Resale Period when a prospectus is required to be delivered under the Securities Act, that such Exchange Registration Statement, prospectus, prospectus amendment or supplement or post-effective amendment does not conform in all material respects to the applicable requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder or contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(iv) in the event that the Company would be required, pursuant to Section 3(c)(iii)(F) above, to notify any broker-dealers holding Exchange Securities, the Company shall without delay prepare and furnish to each such holder a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to purchasers of such Exchange Securities during the Resale Period, such prospectus shall conform in all material respects to the applicable requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(v) use commercially reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of such Exchange Registration Statement or any post-effective amendment thereto at the earliest practicable date;

(vi) use commercially reasonable efforts to (A) register or qualify the Exchange Securities under the securities laws or blue sky laws of such jurisdictions as are contemplated by Section 2(a) no later than the commencement of the Exchange Offer, (B) keep such registrations or qualifications in effect and comply with such laws so as to permit the continuance of offers, sales and dealings therein in such jurisdictions until the expiration of the Resale Period and (C) take any and all other actions as may be reasonably necessary or advisable to enable each broker-dealer holding Exchange Securities to consummate the disposition thereof in such jurisdictions; provided,

however, that the Company shall not be responsible for any filing obligations that such broker-dealer may incur as such under the laws of such jurisdiction; and provided further, that the Company shall not be required for any such purpose to (1) qualify as a foreign corporation in any jurisdiction wherein it would not otherwise be required to qualify but for the requirements of this Section 3(c)(vi), (2) consent to general service of process in any such jurisdiction or (3) make any changes to its certificate of incorporation or by-laws or any agreement between it and its stockholders;

(vii) use commercially reasonable efforts to obtain the consent or approval of each governmental agency or authority, whether federal, state or local, which may be required in order for the Company to effect the Exchange Registration, the Exchange Offer and the offering and sale of Exchange Securities by broker-dealers during the Resale Period;

(viii) provide a CUSIP number for all Exchange Securities, not later than the applicable Effective Time;

(ix) comply with all applicable rules and regulations of the Commission, and make generally available to its securityholders as soon as practicable but no later than 18 months after the effective date of such Exchange Registration Statement, an earning statement of the Company and its subsidiaries complying with Section 11(a) of the Securities Act (including, at the option of the Company, Rule 158 thereunder).

(d) In connection with the Company's obligations with respect to the Shelf Registration, if applicable, the Company shall, as soon as practicable (or as otherwise specified):

(i) prepare and file with the Commission, as soon as practicable but in any case within the time periods specified in Section 2(b), a Shelf Registration Statement on any form which may be utilized by the Company and which shall register all of the Registrable Securities for resale by the holders thereof in accordance with such method or methods of disposition as may be specified by such of the holders as, from time to time, may be Electing Holders and use its best efforts to cause such Shelf Registration Statement to become effective as soon as practicable but in any case within the time periods specified in Section 2(b);

(ii) not less than 30 calendar days prior to the Effective Time of the Shelf Registration Statement, mail the Notice and Questionnaire to the holders of Registrable Securities; no holder shall be entitled to be named as a selling securityholder in the Shelf Registration Statement as of the Effective Time, and no holder shall be entitled to use the prospectus forming a part thereof for resales of Registrable Securities at any time, unless such holder has returned a completed and signed Notice and Questionnaire to the Company by the deadline for response set forth therein; provided, however, holders of Registrable Securities shall have at least 28 calendar days from the date on which the Notice and Questionnaire is first mailed to such holders to return a completed and signed Notice and Questionnaire to the Company;

(iii) after the Effective Time of the Shelf Registration Statement, upon the request of any holder of Registrable Securities that is not then an Electing Holder, promptly send a Notice and Questionnaire to such holder; provided that the Company shall not be



required to take any action to name such holder as a selling securityholder in the Shelf Registration Statement or to enable such holder to use the prospectus forming a part thereof for resales of Registrable Securities until such holder has returned a completed and signed Notice and Questionnaire to the Company;

(iv) as soon as practicable prepare and file with the Commission such amendments and supplements to such Shelf Registration Statement and the prospectus included therein as may be necessary to effect and maintain the effectiveness of such Shelf Registration Statement for the period specified in Section 2(b) hereof and as may be required by the applicable rules and regulations of the Commission and the instructions applicable to the form of such Shelf Registration Statement, and furnish to the Electing Holders copies of any such supplement or amendment simultaneously with or prior to its being used or filed with the Commission;

(v) comply in all material respects with the provisions of the Securities Act with respect to the disposition of all of the Registrable Securities covered by such Shelf Registration Statement in accordance with the intended methods of disposition by the Electing Holders provided for in such Shelf Registration Statement;

(vi) provide (A) the Electing Holders, (B) the underwriters (which term, for purposes of this Exchange and Registration Rights Agreement, shall include a person deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act), if any, thereof, (C) any sales or placement agent therefor, (D) not more than one counsel for all such underwriters or agents and (E) not more than one counsel for all the Electing Holders the opportunity to participate in the preparation of such Shelf Registration Statement, each prospectus included therein or filed with the Commission and each amendment or supplement thereto;

(vii) for a reasonable period prior to the filing of such Shelf Registration Statement, and throughout the period specified in Section 2(b), make available at reasonable times at the Company's principal place of business or such other reasonable place for inspection by the persons referred to in Section 3(d)(vi) who shall certify to the Company that they have a current intention to sell the Registrable Securities pursuant to the Shelf Registration such financial and other information and books and records of the Company, and cause the officers, employees, counsel and independent certified public accountants of the Company to respond to such inquiries, as shall be reasonably necessary, in the judgment of the respective counsel referred to in such Section, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that each such party shall be required to maintain in confidence and not to disclose to any other person any information or records reasonably designated by the Company as being confidential, until such time as (A) such information becomes a matter of public record (whether by virtue of its inclusion in such registration statement or otherwise), or (B) such person shall be required so to disclose such information pursuant to a subpoena or order of any court or other governmental agency or body having jurisdiction over the matter (subject to the requirements of such order, and only after such person shall have given the Company prompt prior written notice of such requirement), or (C) such information is required to be set forth

in such Shelf Registration Statement or the prospectus included therein or in an amendment to such Shelf Registration Statement or an amendment or supplement to such prospectus in order that such Shelf Registration Statement, prospectus, amendment or supplement, as the case may be, complies with applicable requirements of the federal securities laws and the rules and regulations of the Commission and does not contain an untrue statement of a material fact or omit to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(viii) promptly notify each of the Electing Holders, any sales or placement agent therefor and any underwriter thereof (which notification may be made through any managing underwriter that is a representative of such underwriter for such purpose) and confirm such advice in writing, (A) when such Shelf Registration Statement or the prospectus included therein or any prospectus amendment or supplement or post-effective amendment has been filed, and when such Shelf Registration Statement or any post-effective amendment has become effective, (B) of any comments by the Commission and by the blue sky or securities commissioner or regulator of any state with respect thereto or any request by the Commission for amendments or supplements to such Shelf Registration Statement or prospectus or for additional information, (C) of the issuance by the Commission of any stop order suspending the effectiveness of such Shelf Registration Statement or the initiation or threatening of any proceedings for that purpose, (D) if at any time the representations and warranties of the Company contemplated by Section 3(d)(xvii) or Section 5 or contained in any underwriting agreement or similar agreement relating to the offering cease to be true and correct in all material respects, (E) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose, or (F) if at any time when a prospectus is required to be delivered under the Securities Act, that such Shelf Registration Statement, prospectus, prospectus amendment or supplement or post-effective amendment does not conform in all material respects to the applicable requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder or contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(ix) use its best efforts to obtain the withdrawal of any order suspending the effectiveness of such registration statement or any post-effective amendment thereto at the earliest practicable date;

(x) if requested by any managing underwriter or underwriters, any placement or sales agent or any Electing Holder, promptly incorporate in a prospectus supplement or post-effective amendment such information as is required by the applicable rules and regulations of the Commission and as such managing underwriter or underwriters, such agent or such Electing Holder specifies should be included therein relating to the terms of the sale of such Registrable Securities, including information with respect to the principal amount of Registrable Securities being sold by such Electing Holder or agent or to any underwriters, the name and description of such Electing Holder, agent or underwriter, the offering price of such Registrable Securities and any discount, commission or other compensation payable

in respect thereof, the purchase price being paid therefor by such underwriters and with respect to any other terms of the offering of the Registrable Securities to be sold by such Electing Holder or agent or to such underwriters; and make all required filings of such prospectus supplement or post-effective amendment promptly after notification of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(xi) furnish to each Electing Holder, each placement or sales agent, if any, therefor, each underwriter, if any, thereof and the respective counsel referred to in Section 3(d)(vi) an executed copy (or, in the case of an Electing Holder, a conformed copy) of such Shelf Registration Statement, each such amendment and supplement thereto (in each case including all exhibits thereto (in the case of an Electing Holder of Registrable Securities, upon request) and documents incorporated by reference therein) and such number of copies of such Shelf Registration Statement (excluding exhibits thereto and documents incorporated by reference therein unless specifically so requested by such Electing Holder, agent or underwriter, as the case may be) and of the prospectus included in such Shelf Registration Statement (including each preliminary prospectus and any summary prospectus), in conformity in all material respects with the applicable requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder, and such other documents, as such Electing Holder, agent, if any, and underwriter, if any, may reasonably request in order to facilitate the offering and disposition of the Registrable Securities owned by such Electing Holder, offered or sold by such agent or underwritten by such underwriter and to permit such Electing Holder, agent and underwriter to satisfy the prospectus delivery requirements of the Securities Act; and the Company hereby consents to the use of such prospectus (including such preliminary and summary prospectus) and any amendment or supplement thereto by each such Electing Holder and by any such agent and underwriter, in each case in the form most recently provided to such person by the Company, in connection with the offering and sale of the Registrable Securities covered by the prospectus (including such preliminary and summary prospectus) or any supplement or amendment thereto;

(xii) use commercially reasonable efforts to (A) register or qualify the Registrable Securities to be included in such Shelf Registration Statement under such securities laws or blue sky laws of such jurisdictions as any Electing Holder and each placement or sales agent, if any, therefor and underwriter, if any, thereof shall reasonably request and, (B) keep such registrations or qualifications in effect and comply with such laws so as to permit the continuance of offers, sales and dealings therein in such jurisdictions during the period the Shelf Registration is required to remain effective under Section 2(b) above and for so long as may be necessary to enable any such Electing Holder, agent or underwriter to complete its distribution of Securities pursuant to such Shelf Registration Statement and (C) take any and all other actions as may be reasonably necessary or advisable to enable each such Electing Holder, agent, if any, and underwriter, if any, to consummate the disposition in such jurisdictions of such Registrable Securities; provided, however, that the Company shall not be required for any such purpose to (1) qualify as a foreign corporation in any jurisdiction wherein it would not otherwise be required to qualify but for the requirements of this Section 3(d)(xii), (2) consent to general service of process in any

such jurisdiction or (3) make any changes to its certificate of incorporation or by-laws or any agreement between it and its stockholders;

(xiii) use commercially reasonable efforts to obtain the consent or approval of each governmental agency or authority, whether federal, state or local, which may be required to effect the Shelf Registration or the offering or sale in connection therewith or to enable the selling holder or holders to offer, or to consummate the disposition of, their Registrable Securities;

(xiv) Unless any Registrable Securities shall be in book-entry only form, cooperate with the Electing Holders and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold, which certificates, if so required by any securities exchange upon which any Registrable Securities are listed, shall be penned, lithographed or engraved, or produced by any combination of such methods, on steel engraved borders, and which certificates shall not bear any restrictive legends; and, in the case of an underwritten offering, enable such Registrable Securities to be in such denominations and registered in such names as the managing underwriters may request at least two business days prior to any sale of the Registrable Securities;

(xv) provide a CUSIP number for all Registrable Securities, not later than the applicable Effective Time;

(xvi) enter into one or more underwriting agreements, engagement letters, agency agreements, "best efforts" underwriting agreements or similar agreements, as appropriate, including customary provisions relating to indemnification and contribution, and take such other actions in connection therewith as any Electing Holders aggregating at least 20% in aggregate principal amount of the Registrable Securities at the time outstanding shall request in order to expedite or facilitate the disposition of such Registrable Securities;

(xvii) whether or not an agreement of the type referred to in Section 3(d)(xvi) hereof is entered into and whether or not any portion of the offering contemplated by the Shelf Registration is an underwritten offering or is made through a placement or sales agent or any other entity, (A) make such representations and warranties to the Electing Holders and the placement or sales agent, if any, therefor and the underwriters, if any, thereof in form, substance and scope as are customarily made in connection with an offering of debt securities pursuant to any appropriate agreement or to a registration statement filed on the form applicable to the Shelf Registration; (B) obtain an opinion or opinions of counsel to the Company in customary form and covering such matters, of the type customarily covered by such an opinion, as the managing underwriters, if any, or as any Electing Holders of at least 20% in aggregate principal amount of the Registrable Securities at the time outstanding may reasonably request, addressed to such Electing Holder or Electing Holders and the placement or sales agent, if any, therefor and the underwriters, if any, thereof and dated the effective date of such Shelf Registration Statement (and if such Shelf Registration Statement contemplates an underwritten offering of a part or all of the Registrable Securities, dated the date of the closing under the underwriting agreement relating thereto) (it being agreed that the matters to be covered by such opinion shall include the due incorporation and good standing of

the Company and its subsidiaries; the qualification of the Company and its subsidiaries to transact business as foreign corporations; the due authorization, execution and delivery of the relevant agreement of the type referred to in Section 3(d)(xvi) hereof; the due authorization, execution, authentication and issuance, and the validity and enforceability, of the Securities; the absence of material legal or governmental proceedings involving the Company; the absence of a breach by the Company or any of its subsidiaries of, or a default under, material agreements binding upon the Company or any subsidiary of the Company; the absence of governmental approvals required to be obtained in connection with the Shelf Registration, the offering and sale of the Registrable Securities, this Exchange and Registration Rights Agreement or any agreement of the type referred to in Section 3(d)(xvi) hereof, except such approvals as may be required under state securities or blue sky laws; the material compliance as to form of such Shelf Registration Statement and any documents incorporated by reference therein and of the Indenture with the requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder, respectively; and, as of the date of the opinion and of the Shelf Registration Statement or most recent post-effective amendment thereto, as the case may be, the absence from such Shelf Registration Statement and the prospectus included therein, as then amended or supplemented, and from the documents incorporated by reference therein (in each case other than the financial statements and other financial information contained therein) of an untrue statement of a material fact or the omission to state therein a material fact necessary to make the statements therein not misleading (in the case of such documents, in the light of the circumstances existing at the time that such documents were filed with the Commission under the Exchange Act)); (C) obtain a "cold comfort" letter or letters from the independent certified public accountants of the Company addressed to the selling Electing Holders, the placement or sales agent, if any, therefor or the underwriters, if any, thereof, dated (i) the effective date of such Shelf Registration Statement and (ii) the effective date of any prospectus supplement to the prospectus included in such Shelf Registration Statement or post-effective amendment to such Shelf Registration Statement which includes unaudited or audited financial statements as of a date or for a period subsequent to that of the latest such statements included in such prospectus (and, if such Shelf Registration Statement contemplates an underwritten offering pursuant to any prospectus supplement to the prospectus included in such Shelf Registration Statement or post-effective amendment to such Shelf Registration Statement which includes unaudited or audited financial statements as of a date or for a period subsequent to that of the latest such statements included in such prospectus, dated the date of the closing under the underwriting agreement relating thereto), such letter or letters to be in customary form and covering such matters of the type customarily covered by letters of such type; (D) deliver such documents and certificates, including officers' certificates, as may be reasonably requested by any Electing Holders of at least 20% in aggregate principal amount of the Registrable Securities at the time outstanding or the placement or sales agent, if any, therefor and the managing underwriters, if any, thereof to evidence the accuracy of the representations and warranties made pursuant to clause (A) above or those contained in Section 5(a) hereof and the compliance with or satisfaction of any agreements or conditions contained in the underwriting agreement or other agreement entered into by the Company; and (E) undertake such obligations relating to expense reimbursement, indemnification and contribution as are provided in Section 6 hereof;

(xviii) notify in writing each holder of Registrable Securities of any proposal by the Company to amend or waive any provision of this Exchange and Registration Rights Agreement pursuant to Section 9(h) hereof and of any amendment or waiver effected pursuant thereto, each of which notices shall contain the text of the amendment or waiver proposed or effected, as the case may be; and

(xix) comply in all material respects with all applicable rules and regulations of the Commission, and make generally available to its securityholders as soon as practicable but in any event not later than 18 months after the effective date of such Shelf Registration Statement, an earning statement of the Company and its subsidiaries complying with Section 11(a) of the Securities Act (including, at the option of the Company, Rule 158 thereunder).

(e) In the event that the Company would be required, pursuant to Section 3(d)(viii)(F) above, to notify the Electing Holders, the placement or sales agent, if any, therefor and the managing underwriters, if any, thereof, the Company shall without delay prepare and furnish to each of the Electing Holders, to each placement or sales agent, if any, and to each such underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to purchasers of Registrable Securities, such prospectus shall conform in all material respects to the applicable requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. Each Electing Holder agrees that upon receipt of any notice from the Company pursuant to Section 3(d)(viii)(F) hereof, such Electing Holder shall forthwith discontinue the disposition of Registrable Securities pursuant to the Shelf Registration Statement applicable to such Registrable Securities until such Electing Holder shall have received copies of such amended or supplemented prospectus, and if so directed by the Company, such Electing Holder shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in such Electing Holder's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice.

(f) In the event of a Shelf Registration, in addition to the information required to be provided by each Electing Holder in its Notice Questionnaire, the Company may require such Electing Holder to furnish to the Company such additional information regarding such Electing Holder and such Electing Holder's intended method of distribution of Registrable Securities as may be required in order to comply with the Securities Act. Each such Electing Holder agrees to notify the Company as promptly as practicable of any inaccuracy or change in information previously furnished by such Electing Holder to the Company or of the occurrence of any event in either case as a result of which any prospectus relating to such Shelf Registration contains or would contain an untrue statement of a material

fact regarding such Electing Holder or such Electing Holder's intended method of disposition of such Registrable Securities or omits to state any material fact regarding such Electing Holder or such Electing Holder's intended method of disposition of such Registrable Securities required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and promptly to furnish to the Company any additional information required to correct and update any previously furnished information or required so that such prospectus shall not contain, with respect to such Electing Holder or the disposition of such Registrable Securities, an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(g) Until the expiration of two years after the Closing Date, the Company will not, and will not permit any of its "affiliates" (as defined in Rule 144) to, resell any of the Securities that have been reacquired by any of them except pursuant to an effective registration statement under the Securities Act.

#### 4. Registration Expenses.

The Company agrees to bear and to pay or cause to be paid promptly all expenses incident to the Company's performance of or compliance with this Exchange and Registration Rights Agreement, including (a) all Commission and any NASD registration, filing and review fees and expenses including fees and disbursements of counsel for the placement or sales agent or underwriters in connection with such registration, filing and review, (b) all fees and expenses in connection with the qualification of the Securities for offering and sale under the state securities and blue sky laws referred to in Section 3(d)(xii) hereof and determination of their eligibility for investment under the laws of such jurisdictions as any managing underwriters or the Electing Holders may designate, including any fees and disbursements of counsel for the Electing Holders or underwriters in connection with such qualification and determination, (c) all expenses relating to the preparation, printing, production, distribution and reproduction of each registration statement required to be filed hereunder, each prospectus included therein or prepared for distribution pursuant hereto, each amendment or supplement to the foregoing, the expenses of preparing the Securities for delivery and the expenses of printing or producing any underwriting agreements, agreements among underwriters, selling agreements and blue sky or legal investment memoranda and all other documents in connection with the offering, sale or delivery of Securities to be disposed of (including certificates representing the Securities), (d) messenger, telephone and delivery expenses relating to the offering, sale or delivery of Securities and the preparation of documents referred in clause (c) above, (e) fees and expenses of the Trustee under the Indenture, any agent of the Trustee and any counsel for the Trustee and of any collateral agent or custodian, (f) internal expenses (including all salaries and expenses of the Company's officers and employees performing legal or accounting duties), (g) fees, disbursements and expenses of counsel and independent certified public accountants of the Company (including the expenses of any opinions or "cold comfort" letters required by or incident to such performance and compliance), (h) fees, disbursements and expenses of one counsel for the Electing Holders retained in connection with a Shelf Registration, as selected by the Electing Holders of a majority in aggregate principal amount of the Registrable Securities held by Electing Holders (which counsel shall be reasonably satisfactory to the Company), (i) any fees charged by securities rating services for rating the Securities, and (j) fees, expenses and disbursements of any other persons, including special experts, retained by the Company in connection with such registration (collectively, the "Registration Expenses"). To the extent that any Registration Expenses are incurred, assumed or paid by any holder of Registrable Securities or any placement or sales agent therefor or underwriter thereof, the Company shall reimburse such person for the full amount of the Registration Expenses so incurred, assumed or paid promptly after receipt of a request therefor. Notwithstanding the foregoing, the holders of the Registrable Securities being registered shall pay all agency fees and commissions and underwriting discounts and commissions attributable to the sale of such Registrable Securities and the fees and disbursements of any counsel or other advisors or experts retained by such holders (severally or jointly), other than the counsel and experts specifically referred to above.

5. Representations and Warranties.

The Company represents and warrants to, and agrees with, each Purchaser and each of the holders from time to time of Registrable Securities that:

(a) Each registration statement covering Registrable Securities and each prospectus (including any preliminary or summary prospectus) contained therein or furnished pursuant to Section 3(d) or Section 3(c) hereof and any further amendments or supplements to any such registration statement or prospectus, when it becomes effective or is filed with the Commission, as the case may be, and, in the case of an underwritten offering of Registrable Securities, at the time of the closing under the underwriting agreement relating thereto, will conform in all material respects to the requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and at all times subsequent to the Effective Time when a prospectus would be required to be delivered under the Securities Act, other than from (i) such time as a notice has been given to holders of Registrable Securities pursuant to Section 3(d)(viii)(F) or Section 3(c)(iii)(F) hereof until (ii) such time as the Company furnishes an amended or supplemented prospectus pursuant to Section 3(e) or Section 3(c)(iv) hereof, each such registration statement, and each prospectus (including any summary prospectus) contained therein or furnished pursuant to Section 3(d) or Section 3(c) hereof, as then amended or supplemented, will conform in all material respects to the requirements of the Securities Act and the Trust Indenture Act and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by a holder of Registrable Securities expressly for use therein.

(b) Any documents incorporated by reference in any prospectus referred to in Section 5(a) hereof, when they become or became effective or are or were filed with the Commission, as the case may be, will conform or conformed in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and none of such documents will contain or contained an untrue statement of a material fact or will omit or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by a holder of Registrable Securities expressly for use therein.

(c) The compliance by the Company with all of the provisions of this Exchange and Registration Rights Agreement and the consummation by the Company of the transactions herein contemplated will not result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which any of the property or assets of the Company is subject, nor will such action result in any violation of the provisions of any statute or the Restated Articles of Incorporation, as amended, or the Bylaws, as amended, of the Company or any order, rule or regulation of any court or other governmental agency or body having jurisdiction over the Company or any of its



properties; and no consent, approval, authorization, order, registration or qualification of or with any court or governmental agency or body is required for the consummation by the Company of the transactions contemplated by this Exchange and Registration Rights Agreement, except for the registration under the Securities Act of the Securities, qualification of the Indenture under the Trust Indenture Act and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the offering and distribution of the Securities.

(d) This Exchange and Registration Rights Agreement has been duly authorized, executed and delivered by the Company.

#### 6. Indemnification.

(a) Indemnification by the Company. The Company will indemnify and hold harmless each of the holders of Registrable Securities included in an Exchange Registration Statement, each of the Electing Holders of Registrable Securities included in a Shelf Registration Statement and each person who participates as a placement or sales agent or as an underwriter in any offering or sale of such Registrable Securities against any losses, claims, damages or liabilities, joint or several, to which such holder, agent or underwriter may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Exchange Registration Statement or Shelf Registration Statement, as the case may be, under which such Registrable Securities were registered under the Securities Act, or any preliminary, final or summary prospectus contained therein or furnished by the Company to any such holder, Electing Holder, agent or underwriter, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse such holder, such Electing Holder, such agent and such underwriter for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such losses, claims, damages, liabilities or actions as such expenses are incurred; provided, however, that the Company shall not be liable to any such person in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, or preliminary, final or summary prospectus, or amendment or supplement thereto, in reliance upon and in conformity with written information furnished to the Company by such person expressly for use therein; and provided, further, that the Company shall not be liable to any such person with respect to any preliminary prospectus to the extent that any such loss, claim, damage or liability of such person results from the fact that such person participated in a sale of Registrable Securities to a person as to whom it shall be established that there was not sent or given, at or prior to the written confirmation of such sale, a copy of the final prospectus as then amended or supplemented if the Company has previously furnished copies thereof in sufficient quantity to such person and sufficiently in advance of the time of delivery of such Registrable Securities to allow for distribution by such time of delivery and the loss, claim, damage or liability of person results from an untrue statement or omission of a material fact contained in or omitted from the preliminary prospectus which was identified in writing at such time to person and corrected in the final prospectus as then amended or supplemented and each correction would have cured the defect giving rise to such loss, claim, damage or liability.

(b) Indemnification by the Holders and any Agents and Underwriters. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to Section 2(b) hereof and to entering into any underwriting agreement with respect thereto, that the Company shall have received an undertaking reasonably satisfactory to it from the Electing Holder of such Registrable Securities and from each underwriter named in any such underwriting agreement, severally and not jointly, to (i) indemnify and hold harmless the Company, and all other holders of Registrable Securities, against any losses, claims, damages or liabilities to which the Company or such other holders of Registrable Securities may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in such registration statement, or any preliminary, final or summary prospectus contained therein or furnished by the Company to any such Electing Holder, agent or underwriter, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Electing Holder or underwriter expressly for use therein, and (ii) reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such losses, claims, damages, liabilities or actions as such expenses are incurred; provided, however, that no such Electing Holder shall be required to undertake liability to any person under this Section 6(b) for any amounts in excess of the dollar amount of the proceeds to be received by such Electing Holder from the sale of such Electing Holder's Registrable Securities pursuant to such registration.

(c) Notices of Claims, Etc. Promptly after receipt by an indemnified party under subsection (a) or (b) above of written notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party pursuant to the indemnification provisions of or contemplated by this Section 6, notify such indemnifying party in writing of the commencement of such action; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under the indemnification provisions of or contemplated by Section 6(a) or 6(b) hereof. In case any such action shall be brought against any indemnified party and it shall notify an indemnifying party of the commencement thereof, such indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, such indemnifying party shall not be liable to such indemnified party for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all

liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) Contribution. If for any reason the indemnification provisions contemplated by Section 6(a) or Section 6(b) are unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative fault of the indemnifying party and the indemnified party in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by such indemnifying party or by such indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 6(d) were determined by pro rata allocation (even if the holders or any agents or underwriters or all of them were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 6(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages, or liabilities (or actions in respect thereof) referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such indemnified party in connection with investigating or defending any such losses, claims, damages, liabilities or actions. Notwithstanding the provisions of this Section 6(d), no holder shall be required to contribute any amount in excess of the amount by which the dollar amount of the proceeds received by such holder from the sale of any Registrable Securities (after deducting any fees, discounts and commissions applicable thereto) exceeds the amount of any damages which such holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and no underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The holders' and any underwriters' obligations in this Section 6(d) to contribute shall be several in proportion to the principal amount of Registrable Securities registered or underwritten, as the case may be, by them and not joint.

(e) The obligations of the Company under this Section 6 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each officer, director and partner of each holder, agent and underwriter and each person, if any, who controls any holder, agent or underwriter within the meaning of the Securities Act; and the obligations of the holders and any agents or underwriters contemplated by this Section 6 shall be in addition to any liability which the respective holder, agent or underwriter may otherwise

have and shall extend, upon the same terms and conditions, to each officer and director of the Company (including any person who, with his consent, is named in any registration statement as about to become a director of the Company) and to each person, if any, who controls the Company within the meaning of the Securities Act.

#### 7. Underwritten Offerings.

(a) Selection of Underwriters. If any of the Registrable Securities covered by the Shelf Registration are to be sold pursuant to an underwritten offering, the managing underwriter or underwriters thereof shall be designated by Electing Holders holding a majority in aggregate principal amount of the Registrable Securities to be included in such offering, provided that such designated managing underwriter or underwriters is or are reasonably acceptable to the Company.

(b) Participation by Holders. Each holder of Registrable Securities hereby agrees with each other such holder that no such holder may participate in any underwritten offering hereunder unless such holder (i) agrees to sell such holder's Registrable Securities on the basis provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

#### 8. Rule 144.

The Company covenants to the holders of Registrable Securities that to the extent it shall be required to do so under the Exchange Act, the Company shall timely file the reports required to be filed by it under the Exchange Act or the Securities Act (including the reports under Section 13 and 15(d) of the Exchange Act referred to in subparagraph (c)(1) of Rule 144 adopted by the Commission under the Securities Act) and the rules and regulations adopted by the Commission thereunder, and shall take such further action as any holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitations of the exemption provided by Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar or successor rule or regulation hereafter adopted by the Commission. Upon the request of any holder of Registrable Securities in connection with that holder's sale pursuant to Rule 144, the Company shall deliver to such holder a written statement as to whether it has complied with such requirements.

#### 9. Miscellaneous.

(a) No Inconsistent Agreements. The Company represents, warrants, covenants and agrees that it has not granted, and shall not grant, registration rights with respect to Registrable Securities or any other securities which would be inconsistent with the terms contained in this Exchange and Registration Rights Agreement.

(b) Specific Performance. The parties hereto acknowledge that there would be no adequate remedy at law if the Company fails to perform any of its obligations hereunder and that the Purchasers and the holders from time to time of the Registrable Securities may be irreparably harmed by any such failure, and accordingly agree that the Purchasers and such holders, in addition to any other remedy to which they may be entitled at law or in equity, shall be entitled to compel specific performance of the obligations

of the Company under this Exchange and Registration Rights Agreement in accordance with the terms and conditions of this Exchange and Registration Rights Agreement, in any court of the United States or any State thereof having jurisdiction.

(c) Notices. All notices, requests, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered by hand, if delivered personally or by courier, or three days after being deposited in the mail (registered or certified mail, postage prepaid, return receipt requested) as follows: if to the Company, to it at 1411 East Mission Avenue, Spokane, Washington 99202, and if to a holder, to the address of such holder set forth in the security register or other records of the Company, or to such other address as the Company or any such holder may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

(d) Parties in Interest. All the terms and provisions of this Exchange and Registration Rights Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the parties hereto and the holders from time to time of the Registrable Securities and the respective successors and assigns of the parties hereto and such holders. In the event that any transferee of any holder of Registrable Securities shall acquire Registrable Securities, in any manner, whether by gift, bequest, purchase, operation of law or otherwise, such transferee shall, without any further writing or action of any kind, be deemed a beneficiary hereof for all purposes and such Registrable Securities shall be held subject to all of the terms of this Exchange and Registration Rights Agreement, and by taking and holding such Registrable Securities such transferee shall be entitled to receive the benefits of, and be conclusively deemed to have agreed to be bound by all of the applicable terms and provisions of this Exchange and Registration Rights Agreement. If the Company shall so request, any such successor, assign or transferee shall agree in writing to acquire and hold the Registrable Securities subject to all of the applicable terms hereof.

(e) Survival. The respective indemnities, agreements, representations, warranties and each other provision set forth in this Exchange and Registration Rights Agreement or made pursuant hereto shall remain in full force and effect regardless of any investigation (or statement as to the results thereof) made by or on behalf of any holder of Registrable Securities, any director, officer or partner of such holder, any agent or underwriter or any director, officer or partner thereof, or any controlling person of any of the foregoing, and shall survive delivery of and payment for the Registrable Securities pursuant to the Purchase Agreement and the transfer and registration of Registrable Securities by such holder and the consummation of an Exchange Offer.

(f) GOVERNING LAW. THIS EXCHANGE AND REGISTRATION RIGHTS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(g) Headings. The descriptive headings of the several Sections and paragraphs of this Exchange and Registration Rights Agreement are inserted for convenience only, do not constitute a part of this Exchange and Registration Rights Agreement and shall not affect in any way the meaning or interpretation of this Exchange and Registration Rights Agreement.

(h) Entire Agreement; Amendments. This Exchange and Registration Rights Agreement and the other writings referred to herein (including the Indenture and the form of Securities) or delivered pursuant hereto which

form a part hereof contain the entire understanding of the parties with respect to its subject matter. This Exchange and Registration Rights Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter. This Exchange and Registration Rights Agreement may be amended and the observance of any term of this Exchange and Registration Rights Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument duly executed by the Company and the holders of a majority in aggregate principal amount of the Registrable Securities at the time outstanding. Each holder of any Registrable Securities at the time or thereafter outstanding shall be bound by any amendment or waiver effected pursuant to this Section 9(h), whether or not any notice, writing or marking indicating such amendment or waiver appears on such Registrable Securities or is delivered to such holder.

(i) Inspection. For so long as this Exchange and Registration Rights Agreement shall be in effect, this Exchange and Registration Rights Agreement and a complete list of the names and addresses of all the holders of Registrable Securities shall be made available for inspection and copying on any business day by any holder of Registrable Securities for proper purposes only (which shall include any purpose related to the rights of the holders of Registrable Securities under the Securities, the Indenture and this Agreement) at the offices of the Company at the address thereof set forth in Section 9(c) above and at the office of the Trustee under the Indenture.

(j) Counterparts. This agreement may be executed by the parties in counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us four counterparts hereof, and upon the acceptance hereof by you, this letter and such acceptance hereof shall constitute a binding agreement between you and the Company.

Very truly yours,  
Avista Corporation

By: /s/ JON E. ELIASSEN  
-----  
Name: JON E. ELIASSEN  
Title: SR. VP & CFO

Accepted as of the date hereof:  
Goldman, Sachs & Co.

GOLDMAN, SACHS & CO.  
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AVISTA CORPORATION

INSTRUCTION TO DTC PARTICIPANTS

-----  
(DATE OF MAILING)

URGENT - IMMEDIATE ATTENTION REQUESTED  
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DEADLINE FOR RESPONSE: [DATE] \*

The Depository Trust Company ("DTC") has identified you as a DTC Participant through which beneficial interests in Avista Corporation (the "Company") 9.75% Senior Notes due June 1, 2008 (the "Securities") are held.

The Company is in the process of registering the Securities under the Securities Act of 1933 for resale by the beneficial owners thereof. In order to have their Securities included in the registration statement, beneficial owners must complete and return the enclosed Notice of Registration Statement and Selling Securityholder Questionnaire.

It is important that beneficial owners of the Securities receive a copy of the

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enclosed materials as soon as possible as their rights to have the Securities

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included in the registration statement depend upon their returning the Notice and Questionnaire by [DEADLINE FOR RESPONSE]. Please forward a copy of the enclosed documents to each beneficial owner that holds interests in the Securities through you. If you require more copies of the enclosed materials or have any questions pertaining to this matter, please contact Avista Corporation, 1411 East Mission Avenue, Spokane, Washington 99202, Attention: [ ], Telephone No. [ ].

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\*Not less than 28 calendar days from date of mailing.



AVISTA CORPORATION

Notice of Registration Statement  
and  
Selling Securityholder Questionnaire  
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(Date)

Reference is hereby made to the Exchange and Registration Rights Agreement (the "Exchange and Registration Rights Agreement") between Avista Corporation (the "Company") and the Purchasers named therein. Pursuant to the Exchange and Registration Rights Agreement, the Company has filed with the United States Securities and Exchange Commission (the "Commission") a registration statement on Form [ ] (the "Shelf Registration Statement") for the registration and resale under Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), of the Company's \_\_\_\_\_% Notes due \_\_\_\_\_ (the "Securities"). A copy of the Exchange and Registration Rights Agreement is attached hereto. All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Exchange and Registration Rights Agreement.

Each beneficial owner of Registrable Securities (as defined in the Exchange and Registration Rights Agreement) is entitled to have the Registrable Securities beneficially owned by it included in the Shelf Registration Statement. In order to have Registrable Securities included in the Shelf Registration Statement, this Notice of Registration Statement and Selling Securityholder Questionnaire ("Notice and Questionnaire") must be completed, executed and delivered to the Company's counsel at the address set forth herein for receipt ON OR BEFORE [DEADLINE FOR RESPONSE]. Beneficial owners of Registrable Securities who do not complete, execute and return this Notice and Questionnaire by such date (i) will not be named as selling securityholders in the Shelf Registration Statement and (ii) may not use the Prospectus forming a part thereof for resales of Registrable Securities.

Certain legal consequences arise from being named as a selling securityholder in the Shelf Registration Statement and related Prospectus. Accordingly, holders and beneficial owners of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not being named as a selling securityholder in the Shelf Registration Statement and related Prospectus.

## ELECTION

The undersigned holder (the "Selling Securityholder") of Registrable Securities hereby elects to include in the Shelf Registration Statement the Registrable Securities beneficially owned by it and listed below in Item (3). The undersigned, by signing and returning this Notice and Questionnaire, agrees to be bound with respect to such Registrable Securities by the terms and conditions of this Notice and Questionnaire and the Exchange and Registration Rights Agreement, including, without limitation, Section 6 of the Exchange and Registration Rights Agreement, as if the undersigned Selling Securityholder were an original party thereto.

Upon any sale of Registrable Securities pursuant to the Shelf Registration Statement, the Selling Securityholder will be required to deliver to the Company and Trustee the Notice of Transfer set forth in Appendix A to the Prospectus and as Exhibit B to the Exchange and Registration Rights Agreement.

The Selling Securityholder hereby provides the following information to the Company and represents and warrants that such information is accurate and complete:

QUESTIONNAIRE

- (1)(a) Full Legal Name of Selling Securityholder:  
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- (b) Full Legal Name of Registered Holder (if not the same as in (a) above) of Registrable Securities Listed in Item (3) below:  
-----
- (c) Full Legal Name of DTC Participant (if applicable and if not the same as (b) above) Through Which Registrable Securities Listed in Item (3) below are Held:  
-----
- (2) Address for Notices to Selling Securityholder:  
-----  
Telephone: -----  
Fax: -----  
Contact Person: -----
- (3) Beneficial Ownership of Securities:  
Except as set forth below in this Item (3), the undersigned does not beneficially own any Securities.
- (a) Principal amount of Registrable Securities beneficially owned:  
-----  
CUSIP No(s). of such Registrable Securities: -----
- (b) Principal amount of Securities other than Registrable Securities beneficially owned:  
-----  
CUSIP No(s). of such other Securities: -----
- (c) Principal amount of Registrable Securities which the undersigned wishes to be included in the Shelf Registration Statement:  
-----  
CUSIP No(s). of such Registrable Securities to be included in the Shelf Registration Statement: -----
- (4) Beneficial Ownership of Other Securities of the Company:  
Except as set forth below in this Item (4), the undersigned Selling Securityholder is not the beneficial or registered owner of any other securities of the Company, other than the Securities listed above in Item (3).  
State any exceptions here:

(5) Relationships with the Company:

Except as set forth below, neither the Selling Securityholder nor any of its affiliates, officers, directors or principal equity holders (5% or more) has held any position or office or has had any other material relationship with the Company (or its predecessors or affiliates) during the past three years.

State any exceptions here:

(6) Plan of Distribution:

Except as set forth below, the undersigned Selling Securityholder intends to distribute the Registrable Securities listed above in Item (3) only as follows (if at all): Such Registrable Securities may be sold from time to time directly by the undersigned Selling Securityholder or, alternatively, through underwriters, broker-dealers or agents. Such Registrable Securities may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale, or at negotiated prices. Such sales may be effected in transactions (which may involve crosses or block transactions) (i) on any national securities exchange or quotation service on which the Registered Securities may be listed or quoted at the time of sale, (ii) in the over-the-counter market, (iii) in transactions otherwise than on such exchanges or services or in the over-the-counter market, or (iv) through the writing of options. In connection with sales of the Registrable Securities or otherwise, the Selling Securityholder may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the Registrable Securities in the course of hedging the positions they assume. The Selling Securityholder may also sell Registrable Securities short and deliver Registrable Securities to close out such short positions, or loan or pledge Registrable Securities to broker-dealers that in turn may sell such securities.

State any exceptions here:

By signing below, the Selling Securityholder acknowledges that it understands its obligation to comply, and agrees that it will comply, with the provisions of the Exchange Act and the rules and regulations thereunder, particularly Regulation M.

In the event that the Selling Securityholder transfers all or any portion of the Registrable Securities listed in Item (3) above after the date on which such information is provided to the Company, the Selling Securityholder agrees to notify the transferee(s) at the time of the transfer of its rights and obligations under this Notice and Questionnaire and the Exchange and Registration Rights Agreement.

By signing below, the Selling Securityholder consents to the disclosure of the information contained herein in its answers to Items (1) through (6) above and the inclusion of such information in the Shelf Registration Statement and related Prospectus. The Selling Securityholder understands that such information

will be relied upon by the Company in connection with the preparation of the Shelf Registration Statement and related Prospectus.

In accordance with the Selling Securityholder's obligation under Section 3(d) of the Exchange and Registration Rights Agreement to provide such information as may be required by law for inclusion in the Shelf Registration Statement, the Selling Securityholder agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein which may occur subsequent to the date hereof at any time while the Shelf Registration Statement remains in effect. All notices hereunder and pursuant to the Exchange and Registration Rights Agreement shall be made in writing, by hand-delivery, first-class mail, or air courier guaranteeing overnight delivery as follows:

(i) To the Company:

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(ii) With a copy to:

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Once this Notice and Questionnaire is executed by the Selling Securityholder and received by the Company's counsel, the terms of this Notice and Questionnaire, and the representations and warranties contained herein, shall be binding on, shall inure to the benefit of and shall be enforceable by the respective successors, heirs, personal representatives, and assigns of the Company and the Selling Securityholder (with respect to the Registrable Securities beneficially owned by such Selling Securityholder and listed in Item (3) above. This Agreement shall be governed in all respects by the laws of the State of New York.

IN WITNESS WHEREOF, the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated: -----

-----  
Selling Securityholder  
(Print/type full legal name of beneficial owner of Registrable Securities)

By: -----  
Name:  
Title:

PLEASE RETURN THE COMPLETED AND EXECUTED NOTICE AND QUESTIONNAIRE FOR RECEIPT ON OR BEFORE [DEADLINE FOR RESPONSE] TO THE COMPANY'S COUNSEL AT:

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NOTICE OF TRANSFER PURSUANT TO REGISTRATION STATEMENT

Chase Manhattan Bank and Trust Company, National Association  
Avista Corporation  
c/o The Chase Manhattan Bank  
101 California, Suite 2725  
San Francisco, California 94111

Attention: Trust Officer

Re: Avista Corporation (the "Company")  
9.75% Senior Notes due June 1, 2008

Dear Sirs:

Please be advised that \_\_\_\_\_ has transferred \$ \_\_\_\_\_ aggregate principal amount of the above-referenced Notes pursuant to an effective Registration Statement on Form [\_\_\_\_\_] (File No. 333-\_\_\_\_\_) filed by the Company.

We hereby certify that the prospectus delivery requirements, if any, of the Securities Act of 1933, as amended, have been satisfied and that the above-named beneficial owner of the Notes is named as a "Selling Holder" in the Prospectus dated [date] or in supplements thereto, and that the aggregate principal amount of the Notes transferred are the Notes listed in such Prospectus opposite such owner's name.

Dated:

Very truly yours,

-----  
(Name)

By: \_\_\_\_\_  
(Authorized Signature)

## AVISTA CORPORATION

## LETTER OF TRANSMITTAL

Avista Corp. is offering to issue its  
 9.75% SENIOR NOTES DUE JUNE 1, 2008  
 (REGISTERED)  
 in exchange for its  
 9.75% SENIOR NOTES DUE JUNE 1, 2008  
 (UNREGISTERED)  
 PURSUANT TO THE PROSPECTUS, DATED \_\_\_\_\_, 2001

THIS EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M. NEW YORK CITY TIME, ON \_\_\_\_\_  
 \_\_\_\_\_, 2001 UNLESS EXTENDED (THE "EXPIRATION DATE").  
 TENDERS MAY BE WITHDRAWN PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE  
 EXPIRATION DATE.

## Delivery To:

CHASE MANHATTAN BANK AND TRUST COMPANY, NATIONAL ASSOCIATION, AS EXCHANGE AGENT

By Registered or Certified Mail:	By Facsimile:
The Chase Manhattan Bank	(214) 468-6494
Institutional Trust Services	Confirm by
P.O. Box 2320	Telephone:
Dallas, Texas 75221-2320	1-800-275-2048

By Hand:	By Overnight Courier:
The Chase Manhattan Bank	The Chase Manhattan Bank
Corporate Trust-Securities Window	Institutional Trust Services
Room 234-North Building	2001 Bryan Street, 9th Floor
	Dallas, Texas 75201
55 Water Street	Attn: Frank Ivins
New York, New York 10041	Telephone: 1-800-275-2048

Delivery of this Letter of Transmittal to an address other than as set forth above, or transmission of this Letter of Transmittal via facsimile other than as set forth above, will not constitute a valid delivery of this Letter of Transmittal.

The undersigned acknowledges that he or she has received and reviewed a prospectus, dated \_\_\_\_\_, 2001 (the "Prospectus"), of Avista Corporation, a Washington corporation (the "Company"), and this letter of transmittal (the "Letter of Transmittal"), which together constitute the Company's offer (the "Exchange Offer") to issue an aggregate principal amount of up to \$400,000,000 of its 9.75% Senior Notes due June 1, 2008 (the "New Notes"), which have been registered under the Securities Act of 1933, as amended (the "Securities Act"), in exchange for a like principal amount of issued and outstanding 9.75% Senior Notes due June 1, 2008 (the "Old Notes" and, together with the New Notes, the "Notes"), which were not so registered. Capitalized terms used but not defined herein have the meanings given to them to the Prospectus.

In order for any Holder of Old Notes to tender all or any portion of such Old Notes, the Exchange Agent must receive either this Letter of Transmittal completed by such Holder or an Agent's Message (as hereinafter defined) with respect to such Holder. Certificates for Old Notes are to be forwarded herewith or, if a tender of Old Notes is to be made by book-entry transfer, the tender should be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company ("DTC") pursuant to the procedures set forth in the Prospectus under "The Exchange Offer-Procedures for Tendering-Registered Holders and DTC Participants". Holders of Old Notes whose certificates are not immediately available, or who are unable to deliver their certificates or confirmation of the book-entry tender of their Old Notes into the Exchange Agent's account at DTC (a "Book-Entry Confirmation") and all other documents required by this Letter of Transmittal to the Exchange Agent on or prior to the Expiration Date, must tender their Old Notes according to the guaranteed delivery procedures set forth in "The Exchange Offer -Procedures for Tendering - Registered Holders and DTC Participants" section of the Prospectus. See Instruction 1. Delivery of documents to DTC does not constitute delivery to the Exchange Agent.

By causing Old Notes to be credited to the Exchange Agent's account at DTC in accordance with DTC's procedures for transfer, including the transmission by DTC of an Agent's Message to the Exchange Agent, the DTC participant will be deemed to confirm, on behalf of itself and the beneficial owners of such Old Notes, all provisions of this Letter of Transmittal applicable to it and such beneficial owners as fully as if it had completed the information required



herein and executed and delivered this Letter of Transmittal to the Exchange Agent. As used herein, the term "Agent's Message" means a message, electronically transmitted by DTC to and received by the Exchange Agent, and forming a part of the Book-Entry Confirmation, which states that DTC has received an express acknowledgement from a Holder of Old Notes stating that such Holder has received and agrees to be bound by, and makes each of the representations and warranties contained in, this Letter of Transmittal and, further, that such Holder agrees that the Company may enforce this Letter of Transmittal against such Holder.

The term "Holder", as used in this Letter of Transmittal, means any of (a) person in whose name Old Notes are registered on the books of the Company, (b) any other person who has obtained a properly completed bond power from the registered holder, and (c) any DTC participant whose Old Notes are held of record by DTC. Holders who wish to tender their Old Notes must complete this Letter of Transmittal in its entirety or must cause an Agent's Message to be transmitted.

Any other beneficial owner whose Old Notes are registered in the name of a broker or other nominee and who wishes to tender should contact such broker or nominee promptly and instruct such broker or nominee to tender on behalf of the beneficial owner. If the beneficial owner wishes to tender on its own behalf, such beneficial owner must, prior to completing and executing this Letter of Transmittal and delivering its Old Notes, either make appropriate arrangements to register ownership of the Old Notes in such beneficial owner's name or obtain a properly completed bond power from the registered Holder of the Old Notes. The transfer of registered ownership may take considerable time.



TENDER OF OLD NOTES

Ladies and Gentlemen:

Upon the terms and subject to the conditions of the Exchange Offer, the undersigned hereby tenders to the Company the aggregate principal amount of Old Notes indicated above. Subject to, and effective upon, the acceptance for exchange of the Old Notes tendered hereby, the undersigned hereby sells, assigns and transfers to, or upon the order of, the Company all right, title and interest in and to such Old Notes as are being tendered hereby.

The undersigned hereby irrevocably constitutes and appoints the Exchange Agent its agent and attorney-in-fact with full power of substitution, for purposes of delivering this Letter of Transmittal and the Old Notes to the Company. The Power of Attorney granted in this paragraph shall be deemed irrevocable from and after the Expiration Date and coupled with an interest. The undersigned hereby acknowledges its full understanding that the Exchange Agent also performs functions as agent of the Company.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Old Notes tendered hereby and that the Company will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim when the same are accepted by the Company. The undersigned hereby further represents and warrants that any New Notes acquired in exchange for Old Notes tendered hereby will have been acquired in the ordinary course of business of the person receiving such New Notes, whether or not such person is the undersigned, that neither the holder of such Old Notes nor any such other person is engaged or intends to engage in, or has an arrangement or understanding with any person to participate in, the distribution (within the meaning of the Securities Act) of such New Notes and that neither the holder of such Old Notes nor any such other person is an "affiliate," as defined in Rule 405 under the Securities Act, of the Company.

The undersigned also acknowledges that this Exchange Offer is being made by the Company in reliance on an interpretation by the staff of the Securities and Exchange Commission (the "SEC"), as set forth in no-action letters issued to third parties, that the New Notes issued in exchange for the Old Notes pursuant to the Exchange Offer may be offered for resale, resold and otherwise transferred by holders thereof (other than any such holder that is an "affiliate" of the Company within the meaning of Rule 405 under the Securities Act), without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holders' business and that such holders have no arrangement with any person to participate in the distribution (within the meaning of the Securities Act) of such New Notes. The undersigned represents that it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution (within the meaning of the Securities Act) of New Notes. If the undersigned is a broker-dealer that will receive New Notes for its own account in exchange for Old Notes that were acquired as a result of market-making activities or other trading activities, it acknowledges that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such New Notes; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. The undersigned acknowledges that in reliance on an interpretation by the staff of the SEC, a broker-dealer may fulfill its prospectus delivery requirements with respect to the New Notes (other than a resale of New Notes received in exchange for an unsold allotment of Old Notes purchased directly from the Company) with the Prospectus which constitutes part of this Exchange Offer.

The undersigned will, upon request, execute and deliver any additional documents deemed by the Exchange Agent or the Company to be necessary or desirable to complete the sale, assignment and transfer of the Old Notes tendered hereby. All authority conferred or agreed to be conferred in this Letter of Transmittal and every obligation of the undersigned hereunder shall be binding upon the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the undersigned and shall not be

affected by, and shall survive, the death or incapacity of the undersigned. This tender may be withdrawn only in accordance with the procedures set forth in "The Exchange Offer -- Withdrawal of Tenders of Old Notes" section of the Prospectus.

Unless otherwise indicated herein in the box entitled "Special Issuance Instructions" below, please issue the New Notes (and, if applicable, substitute certificates representing Old Notes for any Old Notes not tendered or exchanged) in the name of the undersigned or, in the case of a book-entry delivery of Old Notes, please credit the account indicated above maintained at DTC. Similarly, unless otherwise indicated under the box entitled "Special Delivery Instructions" below, please send the New Notes (and, if applicable, substitute certificates representing Old Notes for any Old Notes not exchanged) to the undersigned at the address shown below in the box entitled "Description of Old Notes."

The Company will be deemed to have accepted validly tendered Old Notes when, as and if the Company shall have given oral (promptly confirmed in writing) or written notice of acceptance to the Exchange Agent.

THE UNDERSIGNED, BY COMPLETING THE BOX ENTITLED "DESCRIPTION OF OLD NOTES" ABOVE AND SIGNING THIS LETTER, WILL BE DEEMED TO HAVE TENDERED THE OLD NOTES AS SET FORTH IN SUCH BOX ABOVE.

-----  
SPECIAL ISSUANCE INSTRUCTIONS  
(See Instructions 3 and 4)

To be completed ONLY if certificates for Old Notes not exchanged and/or New Notes are to be issued in the name of someone other than the person or persons whose signature(s) appear(s) below on this Letter of Transmittal, or if Old Notes delivered by book-entry transfer which are not accepted for exchange are to be returned by credit to an account maintained at DTC other than the account indicated above.

Issue: New Notes and/or Old Notes to:

-----  
Name(s)

-----  
(Please Type or Print)

-----  
(Please Type or Print)

Address

-----  
(Zip Code)

(Complete Substitute Form W-9)

[ ] Credit unexchanged Old Notes delivered by book-entry transfer to the DTC account set forth below.

-----  
(DTC Account Number,  
If Applicable)

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SPECIAL DELIVERY INSTRUCTIONS  
(See Instructions 3 and 4)

To be completed ONLY if certificates for Old Notes not exchanged and/or New Notes are to be sent to someone other than the person or persons whose signature(s) appear(s) on this Letter below or to such person or persons at an address other than shown in the box entitled "Description of Old Notes" on this Letter above.

Mail: New Notes and/or Old Notes to:

-----  
Name(s)

-----  
(Please Type or Print)

-----  
(Please Type or Print)

Address

-----  
(Zip Code)

-----  
IMPORTANT: THIS LETTER OR A FACSIMILE HEREOF OR AN AGENT'S MESSAGE IN LIEU THEREOF (TOGETHER WITH THE CERTIFICATES FOR OLD NOTES OR A BOOK-ENTRY CONFIRMATION AND ALL OTHER REQUIRED DOCUMENTS OR THE NOTICE OF GUARANTEED DELIVERY) MUST BE RECEIVED BY THE EXCHANGE AGENT PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE.

PLEASE READ THIS ENTIRE LETTER OF TRANSMITTAL  
CAREFULLY BEFORE COMPLETING ANY BOX ABOVE

-----  
PLEASE SIGN HERE  
(TO BE COMPLETED BY ALL TENDERING HOLDERS)  
(Complete Accompanying Substitute Form W-9 on reverse side)

Dated:

x \_\_\_\_\_, 2001

x \_\_\_\_\_, 2001

Signature(s) of Owner

Date

Area Code and Telephone Number \_\_\_\_\_

This Letter of Transmittal must be signed by the registered holder(s) as the name(s) appear(s) on the certificate(s) for the Old Notes hereby tendered or on a DTC security position listing or by any person(s) authorized to become registered holder(s) by endorsements and documents transmitted herewith. If signature is by a trustee, executor, administrator, guardian, officer or other person acting in a fiduciary or representative capacity, please set forth full title. See Instruction 3.

Name(s):

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(Please Type or Print)

Capacity:

Address:

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-----  
(Including Zip Code)

SIGNATURE GUARANTEE  
(If required by Instruction 3)

Signature(s) Guaranteed by  
an Eligible Institution:

-----  
(Authorized Signature)

-----  
(Title)

-----  
(Name and Firm)

Dated:

## INSTRUCTIONS

### FORMING PART OF THE TERMS AND CONDITIONS OF THE EXCHANGE OFFER

#### 1. DELIVERY OF THIS LETTER OF TRANSMITTAL AND OLD NOTES; GUARANTEED DELIVERY PROCEDURES.

In order for any Holder of Old Notes to tender all or any portion of such Old Notes, the Exchange Agent must receive either this Letter of Transmittal completed by such Holder or an Agent's Message (as hereinafter defined) with respect to such Holder. Certificates for all physically tendered Old Notes, or Book-Entry Confirmation, as the case may be, as well as a properly completed and duly executed Letter of Transmittal (or facsimile hereof or Agent's Message in lieu thereof) and any other documents required by this Letter of Transmittal, must be received by the Exchange Agent at the address set forth herein prior to the Expiration Date, or the tendering holder must comply with the guaranteed delivery procedures set forth below. Old Notes tendered hereby must be in denominations of principal amount of \$1,000 and any integral multiple thereof.

Holders whose certificates for Old Notes are not immediately available or who cannot deliver their certificates and all other required documents to the Exchange Agent prior to the Expiration Date, or who cannot complete the procedure for book-entry tender on a timely basis, may tender their Old Notes pursuant to the guaranteed delivery procedures set forth in the Prospectus under "The Exchange Offer-Procedures of Tendering-Registered Holders and DTC Participants-Registered Holders." Pursuant to such procedures, (1) such tender must be made through an Eligible Institution, (2) prior to the Expiration Date, the Exchange Agent must receive from such Eligible Institution a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by the Company (by facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of Old Notes, the certificate numbers of such Old Notes (unless tender is to be made by book-entry transfer) and the principal amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that within five New York Stock Exchange ("NYSE") trading days after the date of delivery of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes, or a Book-Entry Confirmation, together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof or Agent's Message in lieu thereof), with any required signature guarantees and any other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent, and (3) the certificates for all physically tendered Old Notes, in the proper form for transfer, or Book-Entry Confirmation, as the case may be, together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof or Agent's Message in lieu thereof), with any required signature guarantees and all other documents required by this Letter of Transmittal, must be received by the Exchange Agent within five NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

The method of delivery of Old Notes, this Letter of Transmittal and all other required documents to the Exchange Agent is at the election and risk of the Holder, but the delivery will be deemed made only when actually received by the Exchange Agent. Instead of delivery by mail, it is recommended that Holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure delivery to the Exchange Agent before the Expiration Date. No Old Notes or Letters of Transmittal should be sent to Avista Corp. Holders may request their respective brokers, dealers, commercial banks, trust companies or nominees to effect the above transactions for such Holders.

See the Prospectus under "The Exchange Offer."

2. PARTIAL TENDERS (NOT APPLICABLE TO HOLDERS WHO TENDER BY BOOK-ENTRY TRANSFER).

If less than all of the Old Notes evidenced by a submitted certificate are to be tendered, the tendering holder(s) should fill in the aggregate principal amount of Old Notes to be tendered in the box above entitled "Description of Old Notes -- Principal Amount Tendered." A reissued certificate representing the balance of nontendered Old Notes will be sent to such tendering holder, unless otherwise provided in the appropriate box on this letter, promptly after the Expiration Date. All of the Old Notes delivered to the Exchange Agent will be deemed to have been tendered unless otherwise indicated.

3. SIGNATURES ON THIS LETTER; BOND POWERS AND ENDORSEMENTS; GUARANTEE OF SIGNATURES.

If this Letter of Transmittal is signed by the Holder of the Old Notes tendered hereby, the signature must correspond exactly with the name as written on the face of the certificates or on DTC's security position listing as the holder of such Old Notes without any change whatsoever.

If any tendered Old Notes are owned of record by two or more joint owners, all of such owners must sign this Letter.

If any tendered Old Notes are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter of Transmittal as there are different registrations of certificates.

If this Letter of Transmittal is signed by the registered holder or holders of the Old Notes specified herein and tendered hereby, no endorsements of certificates or separate bond powers are required. If, however, the New Notes are to be issued, or any untendered Old Notes are to be reissued, to a person other than the registered holder, then endorsements of any certificates transmitted hereby or separate bond powers are required. Signatures on such certificate(s) or bond powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder or holders of any certificate(s) specified herein, such certificate(s) must be endorsed or accompanied by appropriate bond powers, in either case signed exactly as the name or names of the registered holder or holders appear(s) on the certificate(s) and signatures on such certificate(s) or bond powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal or any certificates representing Old Notes or any bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by the Company, proper evidence satisfactory to the Company of their authority to so act must be submitted.

EXCEPT AS PROVIDED BELOW, ENDORSEMENTS ON CERTIFICATES FOR OLD NOTES OR SIGNATURES ON BOND POWERS REQUIRED BY THIS INSTRUCTION 3 MUST BE GUARANTEED BY A FIRM WHICH IS A MEMBER OF A REGISTERED NATIONAL SECURITIES EXCHANGE OR A MEMBER OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY HAVING AN OFFICE OR CORRESPONDENT IN THE UNITED STATES (AN "ELIGIBLE INSTITUTION").

SIGNATURES ON THIS LETTER OF TRANSMITTAL NEED NOT BE GUARANTEED BY AN ELIGIBLE INSTITUTION IF THE OLD NOTES ARE TENDERED: (1) BY A REGISTERED HOLDER OF OLD NOTES WHO HAS NOT COMPLETED THE BOX ENTITLED "SPECIAL ISSUANCE INSTRUCTIONS" OR "SPECIAL DELIVERY INSTRUCTIONS" OR (2) FOR THE ACCOUNT OF AN ELIGIBLE INSTITUTION.



4. SPECIAL ISSUANCE AND DELIVERY INSTRUCTION.

Tendering Holders of Old Notes should indicate in the applicable box the name and address to which New Notes issued pursuant to the Exchange Offer and/or substitute certificates evidencing Old Notes not exchanged are to be issued or sent, if different from the name or address of the person signing this Letter of Transmittal. In the case of issuance in a different name, the employer identification or social security number of the person named must also be indicated. Holders tendering Old Notes by book-entry transfer may request that Old Notes not exchanged be credited to such account maintained at DTC as such Holder may designate hereon. If no such instructions are given, such Old Notes not exchanged will be returned to the name or address of the person signing this Letter.

5. TAX IDENTIFICATION NUMBER.

Federal income tax law generally requires that a tendering holder whose Old Notes are accepted for exchange must provide the Company (as payor) with such holder's correct Taxpayer Identification Number ("TIN") on Substitute Form W-9 below, which in the case of a tendering holder who is an individual, is his or her social security number. If the Company is not provided with the current TIN or an adequate basis for an exemption, such tendering holder may be subject to a \$50 penalty imposed by the Internal Revenue Service. In addition, delivery to such tendering holder of New Notes may be subject to backup withholding in an amount equal to 31% of all reportable payments made after the exchange. If withholding results in an overpayment for taxes, a refund may be obtained.

Exempt holders of Old Notes (including, among others, all corporations and certain foreign individuals) are not subject to these backup withholding and reporting requirements. See the enclosed Guidelines of Certification of Taxpayer Identification Number on Substitute Form W-9 (the "W-9 Guidelines") for additional instructions.

To prevent backup withholding, each tendering Holder of Old Notes must provide its correct TIN by completing the "Substitute Form W-9" set forth below, certifying that the Holder is a U.S. person (including a U.S. resident alien), that the TIN provided is correct (or that such Holder is awaiting a TIN) and that (1) the Holder is exempt from backup withholding, (2) the Holder has not been notified by the Internal Revenue Service that such Holder is subject to a backup withholding as a result of a failure to report all interest or dividends or (3) the Internal Revenue Service has notified the Holder that such Holder is no longer subject to backup withholding. If the tendering Holder of Old Notes is a nonresident alien or foreign entity not subject to backup withholding, such Holder must give the Company a completed Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding, or if applicable, Form W-8ECI, Certificate of Foreign Person's Claim for Exemption From Withholding on Income Effectively Connected with the Conduct of a Trade or Business in the United States. These forms may be obtained from the Exchange Agent. If the Old Notes are in more than one name or are not in the name of the actual owner, such Holder should consult the W-9 Guidelines for information on which the TIN to report. If such Holder does not have a TIN, such Holder should consult the W-9 Guidelines for instructions on applying for a TIN, check the box in Part 2 of the Substitute Form W-9 and write "applied for" in lieu of its TIN. Note: Checking this box and writing "applied for" on the Form means that such Holder has already applied for a TIN or that such Holder intends to apply for one in the near future. If such Holder does not provide its TIN to the Company within 60 days, backup withholding will begin and continue until such Holder furnishes its TIN to the Company.

6. TRANSFER TAXES.

The Company will pay all transfer taxes, if any, applicable to the transfer of Old Notes to it or its order pursuant to the Exchange Offer. If, however, New Notes and/or substitute Old Notes not exchanged are to be delivered to, or are

to be registered or issued in the name of, any person other than the registered holder of the Old Notes tendered hereby, or if tendered Old Notes are registered in the name of any person other than the person signing this Letter of Transmittal, or if a transfer tax is imposed for any reason other than the transfer of Old Notes to the Company or its order pursuant to the Exchange Offer, the amount of any such transfer taxes (whether imposed on the registered holder or any other person) will be payable by the tendering Holder. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted herewith, the amount of such transfer taxes will be billed directly to such tendering Holder.

7. COMPANY DETERMINATION FINAL; WAIVER OF CONDITIONS.

All questions as to the validity, form eligibility (including time of receipt), acceptance of tendered Old Notes and withdrawal of tendered Old Notes will be determined by the Company in its sole discretion, which determination will be final and binding. The Company reserves the absolute right to reject any and all Old Notes not properly tendered or any Old Notes the Company's acceptance of which would, in the opinion of counsel for the Company, be unlawful. The Company also reserves the right to waive any irregularities or conditions of tender as to particular Old Notes. The Company's interpretation of the terms and conditions of the Exchange Offer (including the instructions in this Letter of Transmittal) shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes must be cured within such time as the Company shall determine. Neither the Company, the Exchange Agent nor any other person shall be under any duty to give notification of defects or irregularities with respect to tenders of Old Notes, nor shall any of them incur any liability for failure to give such notification. Tenders of Old Notes will not be deemed to have been made until such defects or irregularities have been cured or waived. Any Old Notes received by the Exchange Agent that are not properly tendered and as to which the defects or irregularities have not been cured or waived will be returned by the Exchange Agent to the tendering Holders of the Old Notes, unless otherwise provided in this Letter of Transmittal, as soon as practicable following the Expiration Date.

8. NO CONDITIONAL TENDERS.

No alternative, conditional, irregular or contingent tenders will be accepted. All tendering Holders of Old Notes, by causing this Letter of Transmittal or an Agent's Message in lieu thereof to be delivered to the Exchange Agent, shall waive any right to receive notice of the acceptance of their Old Notes for exchange.

Neither the Company, the Exchange Agent nor any other person is obligated to give notice of any defect or irregularity with respect to any tender of Old Notes nor shall any of them incur any liability for failure to give any such notice.

9. MUTILATED, LOST, STOLEN OR DESTROYED OLD NOTES.

Any Holder whose Old Notes have been mutilated, lost, stolen or destroyed should contact the Exchange Agent at the addresses indicated above for further instructions.

10. REQUESTS FOR ADDITIONAL COPIES.

Requests for additional copies of the Prospectus and this Letter of Transmittal, may be directed to the Exchange Agent, at the addresses and telephone numbers indicated above.



GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION  
NUMBER ON SUBSTITUTE FORM W-9  
PAGE 2

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number. You can get these forms from the IRS by calling 1-800-829-3676 or from the IRS's internet website at [www.irs.gov](http://www.irs.gov).

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- o An organization exempt from tax under section 501(a), or an individual retirement plan.
- o The United States or any agency or instrumentality thereof.
- o A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- o A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- o An international organization or any agency, or instrumentality thereof.

Other payees that may be exempt from backup withholding include:

- o A corporation.
- o A financial institution.
- o A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- o A real estate investment trust.
- o A common trust fund operated by a bank under section 584(a).
- o A trust exempt from tax under section 664 or described in section 4947.
- o An entity registered at all times during the tax year under Investment Company Act of 1940.
- o A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- o Payments to nonresident aliens subject to withholding under section 1441.
- o Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident alien partner.
- o Payments of patronage dividends where the amount received is not paid in money.
- o Payments made by certain foreign organizations.

Payments of interest not generally subject to backup withholding include the following:

- o Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.

- o Payments of tax-exempt interest (including exempt-interest dividends under section 852).
- o Payments described in section 6049(b)(5) to non-resident aliens.
- o Payments on tax-free covenant bonds under section 1451.
- o Payments made by certain foreign organizations.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER, FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, SIGN AND DATE THE FORM AND RETURN IT TO THE PAYER. IF YOU ARE A NONRESIDENT ALIEN OR A FOREIGN ENTITY NOT SUBJECT TO BACKUP WITHHOLDING, FILE WITH THE PAYER A COMPLETED INTERNAL REVENUE SERVICE FORM W-8 (CERTIFICATE OF FOREIGN STATUS).

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under section 6041, 6041(A), 6045, and 6050A.

Privacy Act Notice.--Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

#### PENALTIES

(1) Penalty for Failure to Furnish Taxpayer Identification Number.--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) Civil Penalty for False Information With Respect to Withholding.--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(3) Criminal Penalty for Falsifying Information.--Willfully falsifying certifications or affirmations may subject you to criminal penalties fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR THE INTERNAL REVENUE SERVICE.

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION  
NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER.--Social Security Numbers have nine digits separated by two hyphens: i.e. 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000. The table below will help determine the number to give the payer.

FOR THIS TYPE OF ACCOUNT:	GIVE THE SOCIAL SECURITY NUMBER OF--	FOR THIS TYPE OF ACCOUNT:	GIVE THE EMPLOYER IDENTIFICATION NUMBER OF--
1. An individual's account	The individual	6. A valid trust, estate, or pension trust	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.(4)
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, the first individual on the account(1)	7. Corporate account	The corporation
3. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)	8. Association, club, religious, charitable, educational, or other tax-exempt organization account	The organization
4. a. The usual revocable savings trust account (grantor is also trustee)	The grantor-trustee (1)	9. Partnership account held in the name of the business	The partnership
b. So-called trust account that is not a legal or valid trust under State law	The actual owner(1)	10. A broker or registered nominee	The broker or nominee
5. Sole proprietorship account	The owner(3)	11. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

- (1) List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number should be furnished.
- (2) Circle the minor's name and furnish the minor's social security number.
- (3) You must show your individual name, but you may also enter your business or "doing business as" name. You may use either your SSN or EIN (if you have one).
- (4) List first and circle the name of the legal trust, estate, or pension trust.
- NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

NOTICE OF GUARANTEED DELIVERY FOR  
AVISTA CORPORATION

This form or one substantially equivalent hereto must be used to accept the Exchange Offer of Avista Corporation (the "Company") made pursuant to a prospectus dated \_\_\_\_\_, 2001 (the "Prospectus"), if certificates for Old Notes of the Company are not immediately available or if the procedure for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach the Company prior to 5:00 p.m., New York City time, on the Expiration Date of the Exchange Offer. Such form may be delivered or transmitted by telegram, telex, facsimile transmission, mail or hand delivery to Chase Manhattan Bank and Trust Company, National Association (the "Exchange Agent") as set forth below. Capitalized terms not defined herein are defined in the Prospectus.

THE EXCHANGE AGENT IS:

Chase Manhattan Bank and Trust Company, National Association

By Registered or Certified Mail:

The Chase Manhattan Bank  
Institutional Trust Services  
P.O. Box 2320  
Dallas, Texas 75221-2320

By Facsimile:

(214) 468-6494  
Confirm by  
Telephone:  
1-800-275-2048

By Hand:

The Chase Manhattan Bank  
Corporate Trust-Securities Window  
Room 234-North Building  
55 Water Street  
New York, New York 10041

By Overnight Courier:

The Chase Manhattan Bank  
Institutional Trust Services  
2001 Bryan Street, 9th Floor  
Dallas, Texas 75201  
Attn: Frank Ivins  
Telephone: 1-800-275-2048

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE, OR TRANSMISSION OF THIS INSTRUMENT VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY.

LADIES AND GENTLEMEN:

Upon the terms and conditions set forth in the Prospectus, the undersigned hereby tenders to the Company the principal amount of Old Notes set forth below, pursuant to the guaranteed delivery procedure described in the Prospectus under "The Exchange Offer -- Procedures for Tendering - Registered Holders and DTC Participants."

Principal Amount of Old Notes Tendered:\*    If Old Notes will be delivered by book-entry transfer to The Depository Trust Company, provide account number.  
\$ \_\_\_\_\_

Certificates Nos. (if available):                      Account Number \_\_\_\_\_

Total Principal Amount Represented by Old Notes Certificate(s):

\$ \_\_\_\_\_

\* Must be in denominations of principal amount of \$1,000 and any integral multiple thereof. See Instruction 1 in the Letter of Transmittal.

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ALL AUTHORITY HEREIN CONFERRED OR AGREED TO BE CONFERRED SHALL SURVIVE THE DEATH OR INCAPACITY OF THE UNDERSIGNED AND EVERY OBLIGATION OF THE UNDERSIGNED HEREUNDER SHALL BE BINDING UPON THE HEIRS, PERSONAL REPRESENTATIVES, SUCCESSORS AND ASSIGNS OF THE UNDERSIGNED.  
-----



-----  
PLEASE SIGN HERE

X

X

-----  
Signature(s) of Owner(s) or  
Authority Signatory

-----  
Date

Telephone Number (including area code):  
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This Notice of Guaranteed Delivery must be signed by the holder(s) of Old Notes as their name(s) appear(s) on certificates for Old Notes or on a DTC security position listing, or by person(s) authorized to become registered holder(s) by endorsement and documents transmitted with this Notice of Guaranteed Delivery. If signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer or other person acting in a fiduciary or representative capacity, such person must set forth his or her full title below.

Please print name(s) and address(es)

Name(s):  
-----  
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Capacity:  
-----

Address:  
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GUARANTEE

The undersigned, a member of a registered national securities exchange, or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States, hereby guarantees that the certificates representing the principal amount of Old Notes tendered hereby in proper form for transfer, or timely confirmation of the book-entry transfer of such Old Notes into the Exchange Agent's account at The Depository Trust Company pursuant to the procedures set forth in the Prospectus under "The Exchange Offer -- Procedures for Tendering - Registered Holders and DTC Participants," together with one or more properly completed and duly executed Letters of Transmittal (or facsimile thereof or Agent's Message in lieu thereof) and any other documents required by the Letter of Transmittal in respect of the Old Notes, will be received by the Exchange Agent at the Address set forth above, no later than five New York Stock Exchange trading days after the date of execution hereof.

-----  
Name of Firm

-----  
Authorized Signature

-----  
Address

-----  
Title

-----  
Name:

-----  
Zip Code

-----  
(Please Type or Print

-----  
Area Code and Tel. No.

-----  
Dated:

-----  
NOTE: DO NOT SEND CERTIFICATES FOR OLD NOTES WITH THIS FORM. CERTIFICATES FOR OLD NOTES SHOULD ONLY BE SENT WITH YOUR LETTER OF TRANSMITTAL.

June 4, 2001

Avista Corporation  
1411 East Mission Avenue  
Spokane, WA 99202

RE: AVISTA CORPORATION - REGISTRATION STATEMENT ON FORM S-4  
9.75% SENIOR NOTES, DUE JUNE 1, 2008 IN AN AGGREGATE PRINCIPAL AMOUNT OF  
\$400,000,000

Ladies and Gentlemen:

We have acted as counsel to Avista Corporation, a Washington corporation (the "Company"), in connection with an offer by the Company to issue up to \$400,000,000 in aggregate principal amount of its 9.75% Senior Notes, due June 1, 2008 (registered) (the "Securities"), in exchange for 9.75% Senior Notes, due June 1, 2008 (unregistered) of the Company, which are currently outstanding in the same aggregate principal amount, all as described in a Registration Statement on Form S-4 (the "Registration Statement") of the Company to be filed under the Securities Act of 1933, as amended (the "Securities Act"), relating to such exchange offer.

I.

We have assumed the authenticity of all records, documents and instruments submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons and the conformity to the originals of all records, documents and instruments submitted to us as copies. We have based our opinion upon our review of the following records, documents, instruments and certificates and such additional certificates relating to factual matters as we have deemed necessary or appropriate for our opinion:

- (a) the Registration Statement;
- (b) the Restated Articles of Incorporation of the Company certified by the Washington Secretary of State as of May 23, 2001, and certified to us by an officer of the Company as being complete and in full force and effect as of the date of this opinion;
- (c) the Bylaws, as amended, of the Company certified by an officer of the Company as being complete and in full force and effect as of the date of this opinion;
- (d) a Certificate of Existence/Authorization relating to the Company and issued by the Washington Secretary of State, dated May 23, 2001;

Heller Ehrman White & McAuliffe LLP  
701 Fifth Avenue, Suite 6100 Seattle, WA 98104-7098 www.hewm.com

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Seattle Portland Anchorage San Francisco Silicon Valley Los Angeles  
San Diego New York Washington D.C. Hong Kong Singapore  
Affiliated Counsel Offices: Milan Rome Paris Padua Naples

HELLER EHRMAN  
ATTORNEYS

Avista Corporation  
June 4, 2001  
Page 2

- (e) records certified to us by an officer of the Company as constituting all records of proceedings and actions of the Company's board of directors relating to the transactions contemplated by the Registration Statement;
- (f) Order No. UE-001098, entered August 30, 2000, amended January 11, 2001, in Docket No. UE-001-098 of the Washington Utilities and Transportation Commission;
- (g) Order No. 28670, entered March 14, 2001, Order No. 28610, entered January 19, 2001, Order No. 28491, entered August 24, 2000, and Order No. 26644, entered October 21, 1996, in Case No. AVU-U-00-3 of the Idaho Public Utilities Commission(1);
- (h) Order No. 01-220, entered March 9, 2001, Order No. 00-410, entered July 28, 2000, and Order No. 99-412, entered July 6, 1999, in Docket No. UF-4166 of the Public Utility Commission of Oregon, together with staff reports appended thereto which constitute part of the orders;
- (i) Decision No. 00-06-064, entered June 22, 2000, of the Public Utilities Commission of the State of California;
- (j) Default Order No. 4535, entered July 2, 1979, in Docket No. 6690 of the Public Service Commission of the State of Montana(2);
- (k) a Certificate of an officer of the Company as to certain factual matters;

Notwithstanding any provisions of the Securities or any other agreements or instruments examined for purposes of these opinions to the effect that such agreement or instrument reflects the entire understanding of the parties with respect to the matters described therein, the courts of the States of Washington

may consider extrinsic evidence of the circumstances surrounding the entering into of such agreement to ascertain the intent of the parties in using the language employed in such agreement, regardless of whether or not the meaning of the language used in such agreement is plain and unambiguous on its face, and may determine that additional or supplementary terms can be incorporated into such agreement. We have not considered parol evidence in connection with the opinion set forth below.

- -----  
(1) We have received and relied upon an officer's certificate certifying that the Company's senior unsecured debt ratings are within the permitted tolerances identified by the IPUC in Order No. 28610 at page 3.

(2) We have received and relied upon an officer's certificate certifying that at no time since the issuance of the MPSC's order have the Company's electric sales for ultimate use by Montana customers exceeded \$5,000,000 or 5% of the Company's revenue in any year.

Heller Ehrman White & McAuliffe LLP

II.

We have also assumed the following, without making any inquiry into the reasonableness or validity thereof:

- A. The applicable provisions of the Securities Act, the Trust Indenture Act of 1939, as amended, and the securities or blue sky laws of various states shall have been complied with.
- B. The Securities will be duly executed, authenticated and delivered prior to their issuance against consideration therefor as set forth in the Registration Statement and in accordance with the proceedings and actions of the Company's board of directors relating to the transactions contemplated by the Registration Statement.
- C. There are no facts or circumstances specifically relating to any parties other than the Company (the "Other Parties") that might prevent the Other Parties from enforcing any of the rights to which our opinion relates.

III.

We express no opinion as to:

- (a) The applicable choice of law rules that may affect the interpretation or enforcement of any of the Securities.
- (b) Any securities, tax, anti-trust, land use, safety, environmental, hazardous materials, insurance company or banking laws, rules or regulations, or any laws, rules or regulations applicable to any of the Other Parties by virtue of their status as regulated entities, or whether governmental consents, approvals, authorizations, registrations, declarations or filings required in connection with exchange of the Securities will be applied for, received or made.
- (c) The enforceability of any provision of the Securities that relates to the choice of arbitration as a dispute resolution mechanism.
- (d) The effect on the obligations of the Company, and the Other Parties' rights, under the Securities of laws relating to fraudulent transfers and fraudulent obligations set forth in Sections 544 and 548 of the federal Bankruptcy Code or applicable state law.
- (e) The enforceability of any waiver of immunities contained in the Securities.
- (f) The enforceability of any liquidated damages provisions contained in the Securities.

This opinion is limited to (i) the federal laws of the United States of America, (ii) the laws of the State of Washington, and (iii) the statutes (and regulations promulgated thereunder) of the States of California, Idaho, Montana and Oregon pertaining to the regulation of public utilities in those States. We disclaim any opinion as to the laws of any other jurisdiction. We further disclaim any opinion as to any statute, rule, regulation, ordinance, order or other promulgation of any regional or local governmental body or as to any related judicial or administrative opinion.

IV.

Based upon the foregoing and our examination of such questions of law as we have deemed necessary or appropriate for our opinion, and subject to the limitations and qualifications expressed herein, it is our opinion that the Securities, when issued and delivered as contemplated in the Registration Statement, will be legally issued and will be binding obligations of the Company, subject (i) to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws of general applicability relating to or affecting creditors' rights and (ii) to general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

V.

We further advise you that:

- A. As noted, the enforceability of the Securities is subject to the effect of general principles of equity. These principles include, without limitation, concepts of commercial reasonableness, materiality and good faith and fair dealing. As applied to the Securities, these principles will require the Other Parties to act reasonably, in good faith and in a manner that is not arbitrary or capricious in the administration and enforcement of the Securities and will preclude the Other Parties from invoking penalties for defaults that bear no reasonable relation to the damage suffered or that would otherwise work a forfeiture.
- B. The enforceability of the Securities is subject to the effects of (i) Section 62A.1-102 of Revised Code of Washington (the "WA Code"), which provides that obligations of good faith, diligence, reasonableness and care prescribed by the WA Code may not be disclaimed by agreement, although the parties may by agreement determine the standards by which the performance of such obligations is to be measured if those standards are not manifestly unreasonable, (ii) Section 62A.1-203 of the WA Code, which imposes an obligation of good faith in the performance or enforcement of a contract and (iii) legal principles under which a court may refuse to enforce, or may limit the enforcement of, a contract or any clause of a contract that a court finds as a matter of law to have been unconscionable at the time it was made.
- C. The effectiveness of indemnities, rights of contribution, exculpatory provisions and waivers of the benefits of statutory provisions may be limited on public policy grounds.

- D. Pursuant to Section 4.84.330 of the WA Code, any provision in an agreement requiring a party to pay another party's attorneys' fees and costs in actions to enforce the provisions of such agreement will be construed to entitle the prevailing party in any action, whether or not that party is the specified party, to be awarded its reasonable attorneys' fees, costs and necessary disbursements.
- E. Provisions of any agreement requiring that waivers must be in writing may not be binding or enforceable if a non-executory oral agreement has been created modifying any such provision or an implied agreement by trade practice or course of conduct has given rise to a waiver.

VI.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the references to this firm, as counsel, in the Registration Statement and in the prospectus contained therein. In giving this consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules and regulations promulgated thereunder.

VII.

The foregoing opinion is being delivered solely to you in connection with the filing of the Registration Statement and is solely for your benefit and the benefit of the holders of the Securities. This opinion may not be relied on by you for any other purpose or by any other person for any purpose without our written consent. We disclaim any obligation to advise you of any change of law that occurs, or any facts of which we become aware, after the date of this opinion.

Very truly yours,

/s/ HELLER EHRMAN WHITE & MCAULIFFE LLP

NEW YORK  
SAN FRANCISCO  
WASHINGTON, D.C.  
LOS ANGELES  
SILICON VALLEY  
MORRISTOWN, N.J.

THELEN REID & PRIEST LLP  
ATTORNEYS AT LAW  
40 WEST 57TH STREET  
NEW YORK, N.Y. 10019-4097  
TEL (212) 603-2000 FAX (212) 603-2001  
www. thelenreid.com

NEW YORK OFFICE  
DIRECT DIAL NUMBER

New York, New York  
June 4, 2001

Avista Corporation  
1411 East Mission Avenue  
Spokane, WA 99202

Ladies and Gentlemen:

We are acting as counsel to Avista Corporation, a Washington corporation (the "Company"), in connection with the filing by the Company of a Registration Statement on Form S-4 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Act"), relating to the registration of \$400,000,000 in aggregate principal amount of 9.75% Senior Notes Due June 1, 2008 (the "New Notes") of the Company, in connection with an offer by the Company to issue the New Notes in exchange for 9.75% Senior Notes due June 1, 2008 of the Company, which are currently outstanding in the same aggregate principal amount, all as described in the Registration Statement.

Subject to the qualifications hereinafter expressed, we are of the opinion that the New Notes, when issued and delivered as contemplated in the Registration Statement, will be legally issued and will be binding obligations of the Company.

We are further of the opinion that the information contained in the Registration Statement under the caption "Certain U.S. Federal Income Tax Considerations" constitutes an accurate description, in general terms, of the indicated federal income tax consequences to holders of the New Notes of the exchange offer contemplated in the Registration Statement.

To the extent that the opinions relate to or are dependent upon matters governed by the laws of other States, we have relied the opinion of Heller Ehrman White & McAuliffe LLP, which is being filed as Exhibit 5(a) to the Registration Statement.

We hereby consent to the filing of this opinion as Exhibit 5(b) to the Registration Statement and to the references to our firm, as counsel, in the Registration Statement and in the prospectus contained therein. In giving the foregoing consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the Act or the rules and regulations promulgated thereunder.

Very truly yours,

/s/ THELEN REID & PRIEST LLP

THELEN REID & PRIEST LLP

CONFORMED

-----  
 SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549  
 -----

FORM T-1

STATEMENT OF ELIGIBILITY  
 UNDER THE TRUST INDENTURE ACT OF 1939 OF  
 A CORPORATION DESIGNATED TO ACT AS TRUSTEE  
 -----

CHASE MANHATTAN BANK AND TRUST COMPANY, NATIONAL ASSOCIATION  
 (Exact name of trustee as specified in its charter)

CALIFORNIA (State of incorporation if not a national bank)	94-2926573 I.R.S. employer identification No.)
--	--

101 California Street, Suite #2725 San Francisco, California (Address of principal executive offices)	94111 (Zip Code)
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 Avista Corporation  
 (Exact name of obligor as specified in its charter)

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

-----  
 9.75% Senior Notes due June 1, 2008  
 (Title of the indenture securities)  
 -----

1

## GENERAL

## ITEM 1. GENERAL INFORMATION.

Furnish the following information as to the trustee:

(a) Name and address of each examining or supervising authority to which it is subject.

Comptroller of the Currency, Washington, D.C.  
 Board of Governors of the Federal Reserve System, Washington, D.C.

(b) Whether it is authorized to exercise corporate trust powers.

Yes.

## ITEM 2. AFFILIATIONS WITH THE OBLIGOR.

If the obligor is an affiliate of the trustee, describe each such affiliation.

None.

## ITEM 4. TRUSTEESHIPS UNDER OTHER INDENTURES

a) Title of the securities outstanding under each such other indenture.

\$66,700,000 City of Forsyth, Montana, Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999A issued under Indenture dated as of September 1, 1999.

\$17,000,000 City of Forsyth, Montana, Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999B issued under Indenture dated as of September 1, 1999.

b) A brief statement of the facts relied upon as a basis for the claim that no conflicting interest within the meaning of Section 310 (b) (1) of the Act arises as a result of the trusteeship under any such other indenture, including a statement as to how the indenture securities will rank as compared with the securities issued under such other indenture.

The Trustee is not deemed to have a conflicting interest within the meaning of Section 310 (b) (1) of the Act because the indenture securities referenced in (a) above (the "Prior Securities") are not in default and rank



equally.

ITEM 16. LIST OF EXHIBITS

List below all exhibits filed as a part of this Statement of Eligibility.

1. Articles of Association of the Trustee as now in effect (see Exhibit 1 to Form T-1 filed in connection with Registration Statement No. 333-41329, which is incorporated by reference).

2. A copy of the Certificate of Authority of the Trustee to Commence Business (See Exhibit 2 to Form T-1 filed in connection with Registration Statement No. 333-41329, which is incorporated by reference).

3. Authorization to exercise corporate trust powers (Contained in Exhibit 2).

4. A copy of the existing By-Laws of the Trustee (see Exhibit 4 to Form T-1 filed in connection with Registration Statement No. 333-41329, which is incorporated by reference).

5. Not applicable.

6. The consent of the Trustee required by Section 21(b) of the Act (See Exhibit 6 to Form T-1 filed in connection with Registration Statement No. 333-41329, which is incorporated by reference).

7. A copy of the latest report of condition of the Trustee, published pursuant to law or the requirements of its supervising or examining authority.

8. Not applicable.

9. Not applicable.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, the Trustee, Chase Manhattan Bank and Trust Company, National Association, a corporation organized and existing under the laws of the State of California, has duly caused this statement of eligibility to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of San Francisco and State of California, on the 29th day of May, 2001.

CHASE MANHATTAN BANK AND TRUST COMPANY,  
NATIONAL ASSOCIATION

By /s/Chii Ling Lei

-----  
Chii Ling Lei  
Assistant Vice President

EXHIBIT 7. REPORT OF CONDITION OF THE TRUSTEE.

CONSOLIDATED REPORT OF CONDITION OF

Chase Manhattan Bank and Trust Company, N. A.

(Legal Title)

LOCATED AT 1800 Century Park East, Ste. 400 Los Angeles, CA 90067

(Street) (City) (State) (Zip)

AS OF CLOSE OF BUSINESS ON March 31, 2001

ASSETS DOLLAR AMOUNTS IN THOUSANDS

1.	Cash and balances due from depository institutions (from Schedule RC-A):	
	a. Noninterest-bearing balances and currency and coin (1)	2,438
	b. Interest bearing balances (2)	0
2.	Securities:	
	a. Held-to-maturity securities (from Schedule RC-B, column A)	0
	b. Available-for-sale securities (from Schedule RC-B, column D)	671
3.	Federal Funds sold and securities purchased agreements to resell	60,850
4.	Loans and lease financing receivables (from Schedule RC-C):	
	a. Loans and leases held for sale	0
	b. Loans and leases, net of unearned income	471
	c. LESS: Allowance for loan and lease losses	0
	d. Loans and leases, net of unearned income and allowance (item 4.b minus 4.c)	471
5.	Trading assets (from Schedule RC-D)	N/A
6.	Premises and fixed assets (including capitalized leases)	217
7.	Other real estate owned (from Schedule RC-M)	0
8.	Investments in unconsolidated subsidiaries and associated companies (from Schedule RC-M)	0
9.	Customers' liability to this bank on acceptances outstanding	0
10.	Intangible assets	
	a. Goodwill	21
	b. Other intangible assets (from Schedule RC-M)	560
11.	Other assets (from Schedule RC-F)	2,460
12.	TOTAL ASSETS (sum of items 1 through 11)	67,688

(1) Includes cash items in process of collection and unposted debits.  
(2) Includes time certificates of deposit not held for trading.

LIABILITIES

13. Deposits:		
a. In domestic offices (sum of totals of columns A and C from Schedule RC-E)		33,383
(1) Noninterest-bearing (1)		10,919
(2) Interest-bearing		22,464
b. In foreign offices, Edge and Agreement subsidiaries, and IBF'		
(1) Noninterest-bearing		N/A
(2) Interest-bearing		N/A
14. Federal funds purchased and securities sold under agreements to repurchase		0
15. Trading liabilities (from Schedule RC-D)		0
16. Other borrowed money (includes mortgage indebtedness and obligations under capitalized leases) (from Schedule RC-M):		0
17. Not applicable		
18. Bank's liability on acceptances executed and outstanding		0
19. Subordinated notes and debentures (2)		0
20. Other liabilities (from Schedule RC-G)		6,303
21. Total liabilities (sum of items 13 through 20)		39,686
22. Minority interest in consolidated subsidiaries		0

EQUITY CAPITAL

23. Perpetual preferred stock and related surplus		0
24. Common stock		600
25. Surplus (exclude all surplus related to preferred stock)		13,169
26. a. Retained earnings		14,233
b. Accumulated other comprehensive income (3)		0
27. Other equity capital components (4)		0
28. Total equity capital (sum of items 23 through 27)		28,002
29. Total liabilities, minority interest, and equity capital (sum of items 21, 22, and 28)		67,688

MEMORANDUM

To be reported with the March Report of Condition.

1. Indicate in the box at the right the number of the statement below that best describes the most comprehensive level of auditing work performed for the bank by independent external auditors as of any date during 2000 2

- - - - -
- (1) Includes total demand deposits and noninterest-bearing time and savings deposits.
  - (2) Includes limited-life preferred stock and related surplus.
  - (3) Includes net unrealized holding gains (losses) on available-for-sale securities, accumulated net gains (losses) on cash flow hedges, and minimum pension liability adjustments.
  - (4) Includes treasury stock and unearned Employee Stock Ownership Plan shares.