

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

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000 OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

Washington

91-0462470

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1411 East Mission Avenue, Spokane, Washington

99202-2600

(Address of principal executive offices)

(Zip Code)

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

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

Title of Class	Name of Each Exchange on Which Registered
----------------	--

Common Stock, no par value, together with Preferred Share Purchase Rights appurtenant thereto

New York Stock Exchange
Pacific Stock Exchange

7 7/8% Trust Originated Preferred Securities, Series A

New York Stock Exchange

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

Title of Class
Preferred Stock, Cumulative, Without Par Value

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

Yes No

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

The aggregate market value of the Registrant's outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is \$743,889,494.25, based on the last reported sale price thereof on the consolidated tape on February 28, 2001.

At February 28, 2001, 47,231,079 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

Document

Part of Form 10-K into Which
Document is Incorporated

Proxy Statement to be filed in connection with the annual meeting of shareholders to be held May 10, 2001

Part III, Items 10, 11,
12 and 13

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* = not an applicable item in the 2000 calendar year for the Company

ACRONYMS AND TERMS

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

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

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements should be read with the cautionary statements and important factors included in this Form 10-K at Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Safe Harbor Forward-Looking Statements."

Forward-looking statements are all statements other than statements of current or historical fact, including without limitation those that are identified by the use of the words "will," "anticipates," "seeks to," "estimates," "expects," "intends," "plans," "predicts," and similar expressions.

ITEM 1. BUSINESS

COMPANY OVERVIEW

Avista Corporation (Avista Corp., or the Company) was incorporated in the State of Washington in 1889, and is an energy, information and technology company with utility and subsidiary operations located in the Pacific Northwest. At December 31, 2000, the Company's employees included approximately 1,460 people in its utility operations and approximately 800 people in its subsidiary businesses. The Company's 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.

The Company's 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 that are responsible for retail electric and natural gas distribution, electric transmission services and electric generation and production. Avista Utilities also engages in electric wholesale sales and purchases of capacity and energy. Avista Capital, a wholly owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business. The Energy Trading and Marketing line of business includes Avista Energy, Inc. (Avista Energy), Avista Power, LLC (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). The Information and Technology line of business includes Avista Advantage, Inc. (Avista Advantage), Avista Labs, Inc. (Avista Labs) and Avista Communications, Inc. (Avista Communications). The Avista Ventures line of business includes Avista Ventures, Inc. (Avista Ventures), and several other minor subsidiaries. As of December 31, 2000, the Company had common equity investments of \$363.0 million and \$361.2 million in Avista Utilities and Avista Capital, respectively.

Regulatory, political, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, presenting both opportunities and challenges. Avista Utilities seeks to maintain a strong, low-cost utility business focused on delivering efficient, reliable and high quality service to its customers. The utility business is expected to grow modestly, consistent with historical trends. Expansion will primarily result from economic growth in its service territory. Avista Energy scaled back operations to the Western Systems Coordinating Council (WSCC) during 2000, and will continue to focus on reducing the size and the risk associated with its energy trading and marketing activities. Avista Energy's marketing efforts are expected to be driven by its base of knowledge and experience in the operation of both electric energy and natural gas physical systems in the region, as well as its relationship-focused approach to its customers. Avista Power will continue to pursue opportunities to develop new generation to support the growing power requirements in the Northwest. The Company also intends to focus on its investments in the Information and Technology subsidiaries as part of its overall plan for generating shareholder value, which could include finding equity partners to assist in financing the continued growth of the businesses.

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

Following is a list of the major companies owned by Avista Capital:

Avista Energy -	An electricity and natural gas trading and marketing company, operating primarily in the WSCC.
Avista Power -	A developer, purchaser and owner of electricity generating plants in strategic locations throughout the West. Some projects may be developed with STEAG AG, a German independent power producer, under Avista-STEAG, LLC.
Avista Advantage -	A provider of Internet-based specialty billing and information services.
Avista Labs -	The developer of proton exchange membrane (PEM) fuel cell technology and fuel cell components.
Avista Communications -	An Integrated Communications Provider (ICP) that provides local facilities-based telecommunications solutions, and designs, builds and manages metropolitan area fiber optic networks. Avista Capital owned 82% at December 31, 2000.
Avista Ventures -	Responsible for investing in business opportunities that have potential value in the lines of business in which the Company is already involved and managing the existing businesses.

The Company's lines of business, and the companies included within them, are illustrated below:

[CHART]

[] - denotes a business entity.

() - denotes an operating division or line of business.

For the years ended December 31, 2000, 1999 and 1998, respectively, the four primary business segments of the Company contributed the following percentages of consolidated operating revenues, gross margins and pre-tax income/(loss) from operations:

	Operating Revenues			Gross Margins			Income/(Loss) from Operations (pre-tax)		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Avista Utilities	19%	14%	29%	44%	105%	89%	2%	455%	83%
Energy Trading and Marketing	81%	85%	65%	56%	(5)%	11%	123%	(312)%	13%
Information and Technology	--	--	--	n/a	n/a	n/a	(20)%	(42)%	(3)%
Avista Ventures	--	1%	6%	n/a	n/a	n/a	(5)%	(1)%	7%

n/a -- not applicable

Gross margin is calculated by subtracting resource costs from operating revenues. (See Schedule of Information by Business Segments for further information).

AVISTA UTILITIES

GENERAL

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.

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

ELECTRIC OPERATIONS

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. In addition, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources. With this diverse energy resource portfolio, Avista Utilities remains one of the nation's lowest-cost producers of electric energy services. See Item 2. Properties -- Generating Plants for additional information.

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

In the second quarter of 2000, certain wholesale transactions contributed to significant losses in Avista Utilities, as more fully discussed in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Avista Utilities competes in the electric wholesale market with other western utilities, federal marketing agencies and power marketers. The electric wholesale market has changed significantly over the last few years with respect to market participants, level of activity, variability of prices and credit. These changes have contributed to the increased volatility of the market. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Significant Changes in Energy Markets for information about the California energy situation.

Avista Energy, a wholly owned subsidiary of Avista Corp., pursues electric energy trading activities; however, Avista Energy's activities are not related to Avista Utilities' operations.

Challenges facing Avista Utilities' electric operations include, among other things, changes in the availability of and volatility in the prices of power and fuel, generating unit availability, legislative and governmental regulations,

weather conditions and the ability to recover increased costs of purchased power. Avista Utilities believes it faces minimal risk for stranded utility assets resulting from deregulation due to its low-cost generation portfolio. In a deregulated environment, however, evolving technologies that provide alternate energy supplies could affect the market price of power, and certain generating assets could have capital and operating costs above the adjusted market price. See Industry Restructuring and Note 1 of Notes to Financial Statements for additional information.

ELECTRIC REQUIREMENTS

Avista Utilities' 2000 annual peak requirements, including long-term and short-term contractual obligations, were 3,829 MW. This peak occurred on January 31, 2000, at which time the maximum capacity available from Avista Utilities' generating facilities, including long-term and short-term purchases, was 4,194 MW. The electric requirements include both retail distribution needs and wholesale short-term and long-term commitments. Variations in energy usage by Avista Utilities' ultimate customers occur from year to year, from season to season and from month to month within a season, primarily as a result of weather conditions. This results in a continual balancing of loads and resources, and requires both purchases and sales of energy on a quarterly, monthly, daily and hourly basis in order to be able to meet its load with the lowest cost resources.

ELECTRIC RESOURCES

General Avista Utilities' diverse resource mix of hydroelectric projects, thermal generating facilities, and power purchases and exchanges, combined with strategic access to regional electric transmission systems, enables it to remain one of the nation's lowest-cost producers and sellers of retail electric energy services. At December 31, 2000, Avista Utilities' total owned resources available were 65% hydroelectric and 35% thermal. See Avista Utilities' Electric Operating Statistics for energy resource statistics.

Hydroelectric Resources Total hydroelectric resources provide 547 aMW annually under normal streamflow conditions. Hydroelectric generation is Avista Utilities' lowest cost source of electricity and the availability of hydroelectric generation has a significant effect on its total energy costs. Under average operating conditions, Avista Utilities meets approximately one-third of its total energy requirements (both retail and long-term wholesale) with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to company-owned hydroelectric projects were 86%, 112% and 93% of normal in 2000, 1999 and 1998, respectively.

Thermal Resources Total thermal resources provide 374 aMW annually under normal operating conditions. Avista Utilities has a 15% interest in a twin-unit coal-fired generating facility, the Colstrip Generating Project (Colstrip) in southeastern Montana. Avista Utilities also owns a wood-waste-fired generating facility known as the Kettle Falls Generating Station (Kettle Falls) in northeastern Washington and two natural gas-fired CT generating units, located in Spokane (Northeast Combustion Turbine). In addition, Avista Utilities also operates and leases two natural gas-fired CT generating units in northern Idaho (Rathdrum).

Avista Utilities also had a 17.5% interest in another twin-unit coal-fired generating facility, the Centralia Power Plant (Centralia) in western Washington. On May 5, 2000, the owners of Centralia sold the plant to TransAlta, a Canadian company. Avista Utilities is purchasing energy from TransAlta to replace the output from Centralia for the period from July 1, 2000 through December 31, 2003. Avista Utilities will receive approximately 200 megawatts per hour beginning each July and continuing through March of the following year during the term of the contract. In 2000, 1999 and 1998, Centralia provided approximately 15%, 37% and 37%, respectively, of Avista Utilities' thermal generation.

Colstrip, which is operated by PPL Global, Inc., is supplied with fuel under coal supply and transportation agreements in effect through December 2019 from adjacent coal reserves. In 2000, 1999 and 1998, Colstrip provided approximately 47%, 48% and 46% of Avista Utilities' thermal generation, respectively.

Kettle Falls' primary fuel is wood-waste generated as a by-product from forest industry operations within one hundred miles of the plant. Natural gas may be used as an alternate fuel. A combination of long-term contracts plus spot purchases provides Avista Utilities the flexibility to meet expected future fuel requirements for the plant. In 2000, 1999 and 1998, Kettle Falls provided approximately 12%, 8% and 9% of Avista Utilities' thermal generation, respectively.

The four CTs are natural gas-fired generating units that formerly were primarily used for peaking needs. Due to the high demand for power during 2000 and the relative operating cost compared to higher wholesale market prices, these generating units were run on a more regular basis, and will continue to be run more regularly in the

future. All four CTs have access to domestic and/or Canadian natural gas supplies. In 2000, 1999 and 1998, these four units provided approximately 26%, 7% and 8%, respectively, of Avista Utilities' thermal generation.

Purchases, Exchanges and Sales In 2000, Avista Utilities had various long-term purchase contracts with non-coincident peak (peak that does not occur during the same hour) equating to 832 MW. Additionally, long-term hydroelectric purchase contracts of 195 MW peak were available. Avista Utilities also enters into a significant number of short-term sales and purchases with durations of up to one year. Energy purchases and exchanges for the years 2000, 1999 and 1998 provided approximately 68%, 69% and 70%, respectively, of Avista Utilities' total electric energy requirements.

Under the Public Utility Regulatory Policies Act of 1978 (PURPA), Avista Utilities is required to purchase generation from qualifying facilities, including small hydroelectric and cogeneration projects, at avoided cost rates adopted by the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC). Avista Utilities purchased approximately 594,944 MWH, or about 2% of its total energy requirements, from these sources at a cost of approximately \$28 million in 2000. These contracts expire at various times during the period 2001-2022.

FUTURE RESOURCE NEEDS

In August 2000, the WUTC approved Avista Utilities' plan for a Request for Proposal (RFP) process to increase its power resources. New resources are needed to serve Avista Utilities' long-term load requirements. As part of the order, the WUTC agreed to waive normal time limits related to going out into the market to determine the resource options available to Avista Utilities. In December 2000, Avista Utilities selected the Coyote Springs 2 project near Boardman, Oregon.

The Coyote Springs 2 project is a combined-cycle natural gas fired combustion turbine with generation output of approximately 280-megawatts. Key factors in the selection of Coyote Springs 2 included its fully licensed status and the fact that the manufacture and delivery of natural gas turbine equipment that will power the project is secured. Engineering and procurement of the other required major equipment began in January 2001, with completion of construction expected in June 2002. Permits and contract modifications are being filed to transfer ownership at cost to Avista Utilities from its subsidiary, Avista Power, which previously acquired the rights for the project from Enron North America and Portland General Electric. The Company is working to secure a term loan for financing the construction. The total cost of the project is estimated at \$190 million.

In addition, Avista Utilities selected three demand side management proposals which will yield approximately 13 MW in energy savings over a three-year period. Avista Utilities expects negotiations of these proposals to be finalized during the first quarter of 2001.

Avista Utilities has operational strategies in place to address the issue of available resources to meet the increased demand for energy. Future capital expenditures include plans for increasing capacity and generation at various hydroelectric and thermal generating plants. In addition, action is being taken to increase the energy output from the CT generating units owned and leased by Avista Utilities. On February 16, 2001, Avista Utilities filed for permission to increase the amount of operating hours allowed and for a small increase in the amount of emissions allowed for minor pollutants. The increase in operating hours does not require an increase in the emission levels of major pollutants from these CTs. Approval of the request is expected in mid-2001. Avista Utilities is also in the process of upgrading the air operating permit at the CT units in Spokane to a Title V permit, which will increase the annual amount of emissions allowed. In addition, Avista Utilities is asking to add additional pollution control equipment at the site in order to increase the available hours of operation.

The Company reached an agreement with the Spokane County Air Pollution Control Authority that will allow operation of the Northeast Combustion Turbine for a 90-day period, beginning February 21, 2001, when it would have been idled due to pollution control limits, producing power equivalent to 14 aMW on an annual basis. In return for this waiver, the Company will contribute up to \$324,000 to a fund to defray the energy expenses of low-income residents of Spokane County, and will also spend up to \$900,000 to design and implement an environmental offset project to reduce emissions in an amount equivalent to the emissions of the plant during the waiver period.

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. Current forecasts show streamflow conditions for hydroelectric generation for 2001, estimated at 60% of normal, to be among the worst five

years on record. In response to the reduced hydroelectric generation, Avista Utilities has made additional fixed price purchases of energy, and expects to receive the necessary local, state and federal approvals to increase the energy output of its gas-fired thermal generation to cover its firm retail and wholesale load requirements for 2001, with minimal additional purchases expected from the high cost short-term wholesale market. However, if hydroelectric conditions further deteriorate, its thermal plants do not operate as planned, or weather conditions cause retail loads to increase, Avista Utilities would incur increased costs from increased purchases in the short-term wholesale energy market.

FORECASTED ELECTRIC REQUIREMENTS AND RESOURCES
 (Average MW)

	2001 -----	2002 -----	2003 -----
Requirements:			
System load(1)	1,026	995	1,027
Contracts	479	131	80
Short-term sales	56	--	--
	-----	-----	-----
Total Requirements	1,561 =====	1,126 =====	1,107 =====
Resources:			
System/contract hydro(2)	547	547	547
Company owned thermal generation	367	456	594
Contracts for purchased power(1)	546	262	251
Short-term purchased power	167	--	--
	-----	-----	-----
Total Resources	1,627 =====	1,265 =====	1,392 =====
Surplus Resources	66	139	285

- (1) Decrease from 2001 to 2002 reflects the expiration of a long-term sales contract. There is a corresponding decrease in resources as a result of the contract expiration. This information assumes no renewal of the contract.
- (2) Forecast above assumes normal water, which is the median of the 60 years of water between 1928 and 1988. Water conditions are expected to be 60% of normal in 2001 due to current snow pack conditions. Avista Utilities currently anticipates that hydro generation may be as much as 150 aMW below normal in 2001. This is offset by the waiver received on February 21, 2001, for Northeast Combustion Turbine (14 aMW), the original estimated surplus from the table above (66 aMW), the anticipated change in Rathdrum permit to allow for additional hours of operations (27 aMW) and additional short-term purchases.

HYDROELECTRIC RELICENSING

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

The Cabinet Gorge and Noxon Rapids plants (764 MW) received a new 45-year operating license from the FERC on February 23, 2000. The existing licenses were combined into one license under the name Clark Fork Projects. The application to relicense Cabinet Gorge and Noxon Rapids was filed with the FERC on February 18, 1999, and included the Clark Fork Settlement Agreement signed by 27 parties and a collaboratively written environmental assessment report. The application culminated seven years of planning and consultation with Native American Tribes, special interest groups, resource agencies and the general public. Settlement was reached two years before the license expired, and preserved the projects' economic peaking and load following operations.

As part of the Settlement Agreement, Avista Utilities committed to early implementation of protection, mitigation and enhancement measures, which began in March 1999. Measures in the agreement, which will cost approximately \$4.7 million annually, address issues related to fisheries, water quality, wildlife, recreation, land use, cultural

resources and erosion. Recovery of previously deferred hydro relicensing costs, as well as estimated levels of ongoing costs associated with implementation of the Settlement Agreement, have been addressed by both the WUTC and IPUC and received favorable treatment. Process costs that had been deferred during the licensing phase were allowed in rate base and are being amortized over the 45-year license term. The ongoing Settlement Agreement costs were allowed as operating expenses. See Item 2. Properties - Avista Utilities and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

The issue of high dissolved gas levels which exceed Idaho water quality standards downstream of Cabinet Gorge during spill periods continues to be studied, as agreed to in the Settlement Agreement. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. An engineering feasibility study has identified several possible structural alternatives at Cabinet Gorge that may reduce dissolved gas levels. Under the terms of the Settlement Agreement, the Company will develop an abatement and/or mitigation strategy in 2002 in conjunction with the other signatories to the agreement.

The Company operates six hydroelectric plants (191 MW) on the Spokane River, and five of these (Long Lake, Nine Mile, Upper Falls, Monroe Street and Post Falls) are under one FERC license. The sixth, Little Falls, is not licensed by the FERC. The license for the Spokane River Projects expires in August 2007, and the Company will be required to file a notice of intent to relicense prior to August 2002. Planning, discussions with stakeholder groups and information gathering activities are currently underway.

NATURAL GAS OPERATIONS

Natural gas commodity prices increased dramatically during 2000. However, market prices for natural gas continue to be competitive compared to alternative fuel sources for residential, commercial and industrial customers. Proven reserves and future natural gas development opportunities lead Avista Utilities to believe that natural gas should sustain its market advantage. Significant growth has occurred in the natural gas business in recent years due to increased demand for natural gas in new construction. Avista Utilities also makes sales and provides transportation service directly to large natural gas customers.

Most of Avista Utilities' large industrial customers purchase their own natural gas requirements through gas marketers. For these customers, Avista Utilities provides transportation from its pipeline interconnection to the customer's premises. Avista Utilities has numerous individual contracts for natural gas transportation service, most of which contain negotiated rates for its distribution service based on the customer's competitive alternatives. Seven of Avista Utilities' largest natural gas customers are provided natural gas transportation service under individual contracts. These negotiated contracts were entered into to retain these customers who can either by-pass Avista Utilities' distribution system or have competitive alternative fuel capability. All individual contracts are subject to regulatory review and approval. The competitive nature of the natural gas spot market results in savings in the cost of purchased natural gas, which encourages large customers with fuel-switching capabilities to continue to utilize natural gas for their energy needs when economic. The total volume transported on behalf of transportation customers for 2000, 1999 and 1998 was approximately 225.4, 232.7 and 226.1 million therms, which represented approximately 38%, 40% and 41% of Avista Utilities' total system deliveries.

Challenges facing Avista Utilities' natural gas operations include, among other things, volatility in the price of natural gas, changes in the availability of natural gas, legislative and governmental regulations, weather conditions, conservation and the ability to recover increased costs of natural gas.

NATURAL GAS RESOURCES

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

The Company's energy trading and marketing subsidiary, Avista Energy, is responsible for the daily management and optimization of these resources for the requirements of customers in the states of Washington, Idaho and Oregon under an agreement with Avista Utilities. Under this relationship, Avista Utilities retains ownership of its transportation, storage and long-term contracts and Avista Energy acts as an agent to optimize these important

resources. The utility commissions have approved Benchmark Incentive Mechanisms that allow Avista Utilities and its customers to share some of the benefits of Avista Energy's resource optimization activities. See Regulatory Issues for additional information.

Firm natural gas supplies are available through negotiated agreements for terms ranging between one month and seven years. Approximately 25% of the natural gas supply is obtained from domestic sources, with the remaining 75% from Canadian sources. Nearly all natural gas purchased from Canadian sources is contracted in U.S. dollar denominations, limiting any foreign currency exchange exposure. Canadian natural gas supplies are not considered to be at greater risk of non-delivery than U.S. supplies.

Avista Utilities holds capacity on six natural gas pipelines, Northwest Pipeline Company (NWP), Gas Transmission Northwest (GTN), Paiute Pipeline (Paiute), Tuscarora Gas Transmission Company (Tuscarora), NOVA Pipeline, Ltd. (NOVA) and Alberta Natural Gas Co. Ltd. (ANG), which provide it access to both domestic and Canadian natural gas supplies.

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

Jackson Prairie Natural Gas Storage Project (Storage Project) Avista Utilities owns a one-third interest in the Storage Project, an underground natural gas storage field located near Chehalis, Washington. The role of the Storage Project in providing flexible natural gas supplies is increasingly important to Avista Utilities' natural gas operations. It enables Avista Utilities to place natural gas into storage when prices are low or to meet minimum natural gas purchasing requirements, as well as to withdraw natural gas from storage when spot prices are high or as needed to meet high demand periods. During 1999, Avista Utilities completed the process of increasing the capacity at the Storage Project. This increased capacity is being operated and managed by Avista Energy for the next ten years. Avista Utilities has contracted to release some of its Storage Project capacity to two other utilities until 2001 and 2002, with a provision under one of the releases to partially recall the released capacity if Avista Utilities determines additional natural gas storage is required for its own system supply.

REGULATORY ISSUES

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

In each regulatory jurisdiction, the price the Company may charge for retail electric and natural gas services (other than specially negotiated retail rates for industrial or large commercial customers, which are subject to regulatory review and approval) is currently determined on a "cost of service" basis and is designed to provide, after recovery of allowable operating expenses, an opportunity to earn a reasonable return on "rate base." "Rate base" is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for deferred taxes and other items. Over time, rate base is increased by additions to utility plant in service and reduced by depreciation of utility plant. As the energy business is restructured, traditional "cost of service" ratemaking may evolve into some other form of ratemaking. Rates for transmission services are based on the "cost of service" principles and are set forth in tariffs on file with the FERC. See Note 1 of Notes to Financial Statements for additional information about regulation, depreciation and deferred taxes. Also see Industry Restructuring for additional information about deregulation.

General Rate Cases In October 1999, Avista Utilities filed with the WUTC a request for a general electric rate increase of \$26.2 million, or 10.4%, subsequently revised to \$18.2 million, and a general natural gas rate increase of \$4.9 million, or 6.5%. On September 29, 2000, the WUTC ordered a \$3.4 million, or 1.4%, reduction in electric rates and a \$1.7 million, or 2.1%, increase in natural gas rates. The WUTC also ordered that Avista Utilities' annual rate of return on investment for both electricity and natural gas be reduced from its current rate of return of 10.7% to 9.03%. Avista Utilities had requested a 9.9% rate of return. Avista Utilities filed a Petition for Reconsideration before the WUTC requesting that the commission reconsider certain portions of its order. On November 8, 2000,

the Commission slightly modified the original order by reducing the electric reduction from \$3.4 million to \$2.9 million and increasing the natural gas increase from \$1.7 million to \$1.8 million.

In Avista Utilities' last general electric rate case in the State of Idaho, the IPUC granted a rate increase of \$9.3 million, or 7.6%, with an authorized rate of return of 8.98%, effective August 1999.

Power Cost Deferrals (Washington) On August 9, 2000, the WUTC approved Avista Utilities' request for deferred accounting treatment for certain power costs related to increases in short-term power prices beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to Avista Utilities from those included in base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to Avista Utilities associated with these three power cost components, and the level of costs included in Avista Utilities' base retail rates. The power costs deferred are related solely to the operation of Avista Utilities' system resources to serve its system retail and wholesale load obligations. During 2000, the Company deferred a total of \$33.9 million under this accounting order.

On January 24, 2001, the WUTC approved a modification to the deferral mechanism to recover power supply costs associated with meeting increased retail and wholesale system load requirements, effective December 1, 2000. The WUTC also required Avista Utilities to file a proposal by mid-March 2001 that will address the prudence of the incurred power costs, the optimization of Company-owned resources to the benefit of retail customers, the appropriateness of recovery of power costs through a deferral mechanism, a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs. Avista Utilities also plans to file for an extension of the deferred accounting treatment beyond June 30, 2001.

Power Cost Adjustment (PCA) (Idaho) Avista Utilities has a PCA mechanism in Idaho that tracks changes in hydroelectric generation, secondary energy prices, related changes in thermal generation, as well as changes in PURPA contracts, but not changes in revenues or costs associated with other wheeling or power contracts. Rate changes were triggered when the deferred balance reached \$2.2 million. No more than two surcharges or rebates are to be in effect at the same time. A new trigger of \$3.0 million was effective beginning December 2000. On January 16, 2001, Avista Utilities filed an application with the IPUC seeking proposed modifications to the existing PCA mechanism. Due to extremely high short-term power prices, Avista Utilities is requesting to recover power supply costs associated with meeting increased retail and wholesale system load requirements, as well as to recover replacement power costs associated with possible thermal plant forced outages. See Note 1 of Notes to Financial Statements for additional information.

Purchased Gas Adjustment (PGA or Natural Gas Trackers) Natural gas trackers are supplemental tariffs filed with state regulatory commissions which are designed to pass through changes in purchased natural gas costs, and do not normally result in any changes in net income. In December 2000, Avista Utilities filed natural gas trackers with the WUTC, IPUC and OPUC requesting increases of \$33.9 million, or 29%, \$14.1 million, or 29%, and \$22.4 million, or 35%, respectively. Avista Utilities received effective approval dates from the WUTC of January 12, 2001, the IPUC of February 15, 2001, and the OPUC of January 24, 2001. In February 2001, Avista Utilities filed with CPUC a gas tracker requesting an increase of \$7.7 million, or 61%. Prior to the above mentioned increases, the WUTC and IPUC each approved increases of 29% effective September 1, 2000. The OPUC approved a 19% increase effective October 1, 2000.

Natural Gas Benchmark Mechanism Avista Utilities received regulatory approval of its Natural Gas Benchmark Mechanism in 1999 from the IPUC, WUTC and OPUC. The mechanism eliminates natural gas procurement operations within Avista Utilities and consolidates gas procurement operations under Avista Energy, the Company's non-regulated affiliate. The ownership of the natural gas assets remains with Avista Utilities, but the assets are managed by Avista Energy through an Agency Agreement. Avista Utilities maintains a natural gas staff to prepare load forecasts and analyses related to long-term resource acquisitions, to manage the Agency Agreement with Avista Energy and to support state and federal regulatory activities. The Natural Gas Benchmark Mechanism was implemented September 1, 1999 and runs through March 31, 2002.

Consolidation of natural gas procurement operations under Avista Energy allows the Company to gain synergies and better manage its risk by combining and operating the two portfolios as one portfolio and gain efficiencies by eliminating duplicate functions. Effective January 1, 2001, the WUTC and IPUC approved Avista Utilities' modifications to the Benchmark Mechanism, incorporating the use of financial products (fixed-price transactions or hedging). Due to the unprecedented increase in and volatility of natural gas commodity costs, it was determined that

such additional flexibility was needed in the Mechanism to properly manage costs. (The use of financial products was incorporated in the original Oregon Mechanism.) The Natural Gas Benchmark Mechanism provides certain guaranteed benefits to retail customers and provides the Company with the opportunity to improve earnings, i.e., a performance-based mechanism.

Demand Side Management (DSM) Programs On January 17, 2001, Avista Utilities filed a request with the WUTC and IPUC to implement a natural gas revenue surcharge of 0.5% to provide funding for natural gas energy-efficiency programs. The WUTC approved the surcharge effective February 8, 2001 and the IPUC approved it effective February 15, 2001. Avista Utilities currently has an electric revenue surcharge, or tariff rider, of approximately 1.5% and 1.0% in Washington and Idaho, respectively, to fund its electric DSM programs. Avista Utilities expects to file a request with the IPUC in mid-March 2001 to increase the Idaho Electric DSM rider to 1.5%. The tariff rider has been in place since 1995 and was the first "system benefit charge" for energy efficiency in the country.

INDUSTRY RESTRUCTURING

FEDERAL LEVEL

Industry restructuring to open the electric wholesale energy market to competition was initially promoted by federal legislation. The Energy Policy Act of 1992 (Energy Act) amended provisions of the Public Utility Holding Company Act of 1935 (PUHCA) and the Federal Power Act to remove certain barriers to a competitive wholesale market. The Energy Act confers expanded authority upon the FERC to issue orders requiring electric utilities to transmit power and energy to or for wholesale purchasers and sellers, and to require electric utilities to enlarge or construct additional transmission capacity for the purpose of providing these services. It also created "exempt wholesale generators", a new class of independent power plant owners that are able to sell generation only at the wholesale level. This permits public utilities and other entities to participate through subsidiaries in the development of independent electric generating plants for sales to wholesale customers without being required to register under the PUHCA.

FERC Order No. 888, issued in April 1996, requires public utilities operating under the Federal Power Act to provide access to their transmission systems to third parties pursuant to the terms and conditions of the FERC's pro-forma open access transmission tariff. FERC Order No. 889, the companion rule to Order No. 888, requires public utilities to establish an Open Access Same-Time Information System (OASIS) to provide transmission customers with information about available transmission capacity and other information by electronic means. It also requires each public utility subject to the rule to functionally separate its transmission and wholesale power merchant functions. The FERC issued its initial order accepting the non-rate terms and conditions of Avista Utilities' open access transmission tariff in November 1996. Avista Utilities filed its "Procedures for Implementing Standards of Conduct under FERC Order No. 889" with the FERC in December 1996 and adopted these Procedures effective January 3, 1997. FERC Orders No. 888 and No. 889 have not had a material effect on Avista Utilities' operating results.

In December 1999, FERC Order No. 2000 was issued regarding the development of Regional Transmission Organizations (RTO). This final rule required public utilities subject to FERC regulation to file an RTO proposal, or a description of efforts to participate in an RTO, and any existing obstacles to RTO participation, by October 2000. Avista Utilities and five other Western utilities have taken steps toward the formation of an independent transmission company, TransConnect, which would serve six states. TransConnect would be a member of the planned regional transmission organization, RTO West. The new, for-profit company would own or lease the high voltage transmission facilities currently held by the Company, Montana Power Co., Puget Sound Energy Corp., Portland General Electric Co., Nevada Power Co. and Sierra Pacific Power Co. The proposal was filed October 17, 2000. If a final proposal emerges, it must be approved by the FERC, the boards of directors of the filing companies and regulators in various states. The companies' decision to move forward with the formation of TransConnect will ultimately depend on the economics and conditions related to the formation of TransConnect, as well as the economics and conditions related to the regulatory approval process.

The North American Electric Reliability Council and the Western Systems Coordinating Council (WSCC) have undertaken initiatives to establish a series of security coordinators to oversee the reliable operation of the regional transmission system. Accordingly, Avista Utilities, in cooperation with other utilities in the Pacific Northwest, established the Pacific Northwest Security Coordinator (PNSC), which oversees daily and short-term operations of the Northwest sub-regional transmission grid, and has limited authority to direct certain actions of control area

operators in the case of a pending transmission system emergency. Avista Utilities executed its service agreement with the PNSC in September 1998.

STATE LEVEL

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

For the past several years, the legislatures and public utility commissions in Washington and Idaho have conducted a series of hearings and several studies regarding electric industry restructuring. Issues such as unbundling, deregulation, reliability and consumer protection have been examined. Impacts on customer service quality and system reliability (generation, transmission and distribution) have been considered on a "macro" basis under various restructuring scenarios. Public policy makers in Washington and Idaho continue to examine other states' experiences with restructuring, while cognizant that the Pacific Northwest generally benefits from the lowest electric rates in the country.

Although there is currently no action surrounding deregulation in Washington or Idaho, activities related to California's deregulation have affected wholesale power prices in the West, including the Company's service territory. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for information about the California energy situation.

ENVIRONMENTAL ISSUES

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

Air Quality The most significant impact of the Clean Air Act (CAA) and the 1990 Clean Air Act Amendments (CAAA) was on the Centralia Power Plant, which is classified as a "Phase II" coal plant under the CAAA. Obligations under the CAA were assumed by TransAlta when the sale of Centralia was completed in May 2000.

Colstrip, which is also a "Phase II" coal-fired plant under the CAAA, is not expected to be required to implement any additional SO2 mitigation in the foreseeable future in order to continue operations.

Avista Utilities' other thermal projects also are subject to various CAAA standards. Every five years each project requires an updated operating permit (known as a Title V permit) which addresses, among other things, the compliance of the plant with the CAAA. The operating permit for the CT peaking units at Rathdrum was issued in December 2000. During 2001, the Company will renew the operating permit for the Kettle Falls plant and apply for an upgrade to a Title V permit for the natural gas-fired CTs located in Spokane.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook and Note 22 to Financial Statements for additional information.

 AVISTA UTILITIES OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
	-----	-----	-----
ELECTRIC OPERATIONS			
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Residential	\$ 158,065	\$ 158,658	\$ 157,019
Commercial	149,770	152,107	149,767
Industrial	82,992	69,559	64,662
Public street and highway lighting	3,612	3,517	3,387
	-----	-----	-----
Total retail revenues	394,439	383,841	374,835
	-----	-----	-----
Long-term wholesale	322,229	134,945	102,928
Short-term wholesale	542,525	387,554	354,413
	-----	-----	-----
Total wholesale revenues	864,754	522,499	457,341
	-----	-----	-----
Total energy revenues	1,259,193	906,340	832,176
Other	28,062	21,824	23,898
	-----	-----	-----
Total electric operating revenues	\$ 1,287,255	\$ 928,164	\$ 856,074
	=====	=====	=====
ELECTRIC ENERGY SALES (Thousands of MWhs):			
Residential	3,279	3,237	3,217
Commercial	2,886	2,848	2,810
Industrial	2,048	2,032	1,878
Public street and highway lighting	25	25	24
	-----	-----	-----
Total retail energy sales	8,238	8,142	7,929
	-----	-----	-----
Long-term wholesale	5,554	5,335	3,680
Short-term wholesale	10,253	14,443	15,535
	-----	-----	-----
Total wholesale energy sales	15,807	19,778	19,215
	-----	-----	-----
Total electric energy sales	24,045	27,920	27,144
	=====	=====	=====
ELECTRIC ENERGY RESOURCES (Thousands of MWhs):			
Hydro generation (from Company facilities)	3,819	4,287	3,860
Thermal generation (from Company facilities)	3,153	3,353	3,522
Purchased power - long-term hydro	929	1,093	910
Purchased power - other	16,706	19,697	19,405
Power exchanges	67	16	26
	-----	-----	-----
Total power resources	24,674	28,446	27,723
Energy losses and Company use	(629)	(526)	(579)
	-----	-----	-----
Total energy resources (net of losses)	24,045	27,920	27,144
	=====	=====	=====
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Residential	273,219	270,013	265,891
Commercial	35,060	34,877	34,407
Industrial	1,254	1,189	1,169
Public street and highway lighting	392	389	383
	-----	-----	-----
Total electric retail customers	309,925	306,468	301,850
Wholesale	58	68	85
	-----	-----	-----
Total electric customers	309,983	306,536	301,935
	=====	=====	=====
ELECTRIC RESIDENTIAL SERVICE AVERAGES:			
Annual use per customer (KWh)	12,003	11,990	12,099
Revenue per KWh (in cents)	4.82	4.90	4.88
Annual revenue per customer	\$ 578.53	\$ 587.59	\$ 590.54
	-----	-----	-----
ELECTRIC AVERAGE HOURLY LOAD (aMW)	1,012	990	971
	=====	=====	=====
RESOURCE AVAILABILITY at time of system peak (MW):			
Total requirements (winter):			
Retail	1,491	1,351	1,701
Long-term contract obligations	965	941	663
Short-term sales	1,373	2,340	2,401
	-----	-----	-----
Total requirements (winter)	3,829	4,632	4,765
Total resource availability (winter)	4,194	4,831	4,991
	-----	-----	-----
Total requirements (summer):			
Retail	1,473	1,418	1,521
Long-term contract obligations	1,231	1,155	780
Short-term sales	1,525	3,435	2,792
	-----	-----	-----
Total requirements (summer)	4,229	6,008	5,093
Total resource availability (summer)	4,656	6,633	5,340
	-----	-----	-----

AVISTA UTILITIES OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
NATURAL GAS OPERATIONS			
NATURAL GAS OPERATING REVENUES (Thousands of Dollars):			
Residential	\$ 128,240	\$ 99,879	\$ 92,614
Commercial	69,982	51,952	49,539
Industrial - firm	5,404	3,695	3,685
Industrial - interruptible	2,276	1,352	1,639
Total retail natural gas revenues	205,902	156,878	147,477
Non-retail sales	5,691	15,189	24,846
Transportation	10,254	10,784	12,100
Other revenues	2,999	4,633	8,715
Total natural gas operating revenues	\$ 224,846	\$ 187,484	\$ 193,138
THERMS DELIVERED (Thousands of Therms):			
Residential	212,198	200,184	187,571
Commercial	135,126	125,611	122,263
Industrial - firm	12,604	11,241	11,494
Industrial - interruptible	5,746	5,209	6,053
Total retail sales	365,674	342,245	327,381
Non-retail sales	4,034	74,117	126,522
Transportation	225,392	232,739	226,139
Interdepartmental sales and Company use	802	9,801	32,647
Total therms delivered	595,902	658,902	712,689
SOURCES OF NATURAL GAS SUPPLY (Thousands of Therms):			
Purchases	372,795	430,698	499,983
Storage - injections	(467)	(30,508)	(32,023)
Storage - withdrawals	403	23,972	23,140
Natural gas for transportation	225,392	232,739	226,139
Distribution system gains (losses)	(2,221)	2,001	(4,550)
Total supply	595,902	658,902	712,689
NUMBER OF NATURAL GAS CUSTOMERS (Average for Period):			
Residential	242,983	234,844	226,165
Commercial	29,739	29,032	28,236
Industrial - firm	296	308	310
Industrial - interruptible	38	30	26
Total retail customers	273,056	264,214	254,737
Non-retail sales	2	9	19
Transportation	96	107	119
Total natural gas customers	273,154	264,330	254,875
NATURAL GAS RESIDENTIAL SERVICE AVERAGES:			
Washington and Idaho			
Annual use per customer (therms)	950	887	861
Revenue per therm (in cents)	57.82	45.74	44.97
Annual revenue per customer	\$ 549.07	\$ 405.51	\$ 387.17
Oregon and California			
Annual use per customer (therms)	730	789	772
Revenue per therm (in cents)	66.83	58.59	58.32
Annual revenue per customer	\$ 487.80	\$ 462.21	\$ 450.13
NET SYSTEM MAXIMUM CAPABILITY (Thousands of Therms):			
Net system maximum demand (winter)	2,347	2,077	3,284
Net system maximum firm contractual capacity (winter)	4,320	4,320	4,220
HEATING DEGREE DAYS:(1)			
Spokane, WA			
Actual	7,176	6,408	5,951
30 year average	6,842	6,842	6,842
% of average	105%	94%	87%
Medford, OR			
Actual	4,388	4,401	4,421
30 year average	4,611	4,611	4,611
% of average	95%	95%	96%

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

ENERGY TRADING AND MARKETING LINE OF BUSINESS

The Energy Trading and Marketing line of business includes Avista Energy, Avista Power and Avista-STEAG. Avista Energy and Avista Power are wholly owned subsidiaries of Avista Capital. Avista-STEAG is 50% owned by Avista Capital.

AVISTA ENERGY

Avista Energy is an electricity and natural gas trading and marketing business focused on marketing energy in the Western U.S. In 1997, Avista Energy began conducting business on a national basis and expanded operations with its acquisition of Vitol Gas & Electric, LLC (Vitol) in 1999. However, in November 1999, the decision was made to reduce Avista Energy's size and risk by redirecting its focus away from national energy trading and marketing toward a more regionally-based energy trading and marketing effort in the West backed by contracts for energy commodities and by the output of specific facilities available under contract.

Avista Energy's headquarters are in Spokane, Washington, with offices in Portland, Oregon, and Vancouver, British Columbia, Canada.

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, including futures, options, swaps and other contractual arrangements on national exchanges and through unregulated exchanges and brokers from whom these commodity derivatives are available. During 1999, Avista Energy also sold and traded coal and sulfur dioxide (SO₂) allowances, but eliminated these activities in 2000 as contracts expired. In 2000, Avista Energy sold approximately 105.5 million MWhs of electric energy, 309.2 million dekatherms of natural gas and 3.5 million tons of coal, compared to approximately 135.1 million MWhs of electric energy, 775.8 million dekatherms of natural gas and 1.6 million tons of coal in 1999.

Avista Energy's business is affected by many factors, including, among other things, volatility of prices within the power 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.

In April 1997, Avista Energy entered into a marketing agreement with Chelan County Public Utility District (Chelan PUD), located in Washington State. The agreement allows Avista Energy to market, on a "real-time" basis, a portion of the output from Chelan PUD's hydroelectric resources (557 Mwhs) and to jointly market energy products and services to other utilities in the region.

Effective September 1, 1999, Avista Energy began managing Avista Utilities' natural gas assets and natural gas purchasing operations. Under the agreement, Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers. The assets continue to be owned by Avista Utilities, but they are fully integrated operationally into Avista Energy's portfolio to optimize the value. An incentive plan allows Avista Energy the opportunity to retain a portion of the benefits associated with asset optimization and the efficiencies gained in purchasing natural gas for Avista Utilities. Approvals were received from the state regulatory agencies in Washington, Idaho and Oregon. The incentive plan began September 1, 1999 and ends March 31, 2002. Avista Utilities may seek continuation of the plan from regulators with six months notice prior to the end of the term.

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

Avista Energy is subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk. Because Avista Energy operates within the WSCC, the company is directly and indirectly exposed to the California markets. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations and Future Outlook, and Notes 1, 2, 4 and 5 of Notes to Financial Statements for additional information regarding the market

and credit risks inherent in the energy trading business, fourth quarter 1999 restructuring costs, Avista Energy's risk management policies and procedures, accounting practices, and positions held by Avista Energy at December 31, 2000.

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

AVISTA POWER

Avista Power develops and owns electricity generation in strategic locations primarily throughout the West. 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 percent of its output contracted to Avista Energy for 25 years. The facility is currently under construction and is expected to be on-line in August 2001. The total cost of the project is estimated at \$160 million; Avista Power's equity in the project is approximately \$16 million.

In December 2000, Avista Utilities selected the Coyote Springs 2 project, a 280-megawatt combined-cycle natural gas turbine plant under construction near Boardman, Oregon, to add generation to its portfolio. Permits and contract modifications are in the process of being filed to transfer ownership from Avista Power to Avista Utilities. The final permit transfers are expected in early 2001, with project completion in mid-2002.

Avista Power is also in the permitting process for an additional 249-megawatt turbine plant to be sited in Longview, Washington. This project is a joint venture with STEAG AG, Germany's largest independent power producer.

As a further execution of its strategy to shift focus to the western regional power markets, Avista Power sold all its licensed and unlicensed assets located outside the WSCC to STEAG AG. In addition, Avista Power's interest in a project site located in Bogalusa, Louisiana, was sold in late 2000.

Some projects may be developed with STEAG AG under Avista-STEAG, LLC.

INFORMATION AND TECHNOLOGY LINE OF BUSINESS

The Information and Technology line of business includes Avista Advantage, Avista Labs and Avista Communications. Avista Fiber and Avista Communications merged operations in 2000, incorporating Avista Fiber into Avista Communications. Avista Advantage and Avista Labs are majority-owned and wholly owned subsidiaries of Avista Capital, respectively. As of December 31, 2000, Avista Capital owned approximately 82% of Avista Communications.

AVISTA ADVANTAGE

Headquartered in Spokane, Avista Advantage is an e-commerce provider of facilities management billing and information services to commercial customers throughout the U.S. and Canada.

Avista Advantage processes and presents consolidated bills on-line, and pays utility and maintenance and repair bills for multi-site commercial and industrial customers. Information gathered from invoices, utilities and other customer-specific data allows Avista Advantage to provide its customers with in-depth analytical support, real-time reporting and unbiased consulting in regard to energy, water, waste, and maintenance and repair expenses.

Avista Advantage has secured patents on its two critical business systems, the Advantage Customer Internet Site (ACIS), which provides high value, operational information drawn from utility bills, and the AviTrack database, which processes and reports on information gathered from utilities to ensure customers are receiving the most effective services at the proper price. Avista Advantage is not aware of any claimed or threatened infringement on any patents issued to date and will continue to expand and protect its existing patents, as well as file additional patent applications for new products, services and process enhancements.

As of the end of 2000, Avista Advantage's customer base was over 140 customers, having over 46,000 billed sites throughout the U.S. and Canada. Two venture capital firms invested in Avista Advantage during the fourth quarter

of 2000. The strategic investments will help refine, expand and market Avista Advantage's growing number of facility cost management services.

AVISTA LABS

Avista Labs has developed a unique modular PEM fuel cell that delivers reliable, affordable and clean distributed power solutions. The modular design allows fuel cell cartridges to be easily removed and replaced without interrupting power. The company believes this exclusive "hot swap" feature makes Avista Labs' technology more scalable, configurable, reliable and durable than other fuel cell technologies. In addition to its modular-based PEM fuel cell, Avista Labs is dedicated to commercializing a broad array of components to complement its fuel cell in order to deliver system solutions to residential, industrial and commercial markets.

Avista Labs has been granted two patents, with more than 230 issued claims recognizing and protecting the unique attributes of its fuel cell system. The company has eight more patent applications pending or in process directed to its unique approach.

Testing of the Avista Labs' fuel cells is underway to gather field data in a wide variety of operating conditions. In September 2000, Avista Labs delivered its latest prototype to the Houston Advanced Research Center for testing and evaluation. Avista Labs continues to add new locations to its current list of seven Beta testing sites around the country.

Key alliances in bringing Avista Labs' product to market include a joint marketing/installation agreement with Black & Veatch, a global leader in engineering, procurement and construction, and an agreement with Logan Industries, Inc., which has been manufacturing and assembling Avista Labs fuel cell units for field testing since early 1999.

Effective December 1, 2000, Avista Labs exercised its right to terminate the exclusivity obligations of the Joint Development Agreement with UOP, LLC, entered into in August 1999. The Joint Development Agreement included a provision obligating the parties to work exclusively with one another in regard to the subject matter of the Agreement, which involved programs to develop a fuel cell system utilizing a fuel cell and a fuel processor. Avista Labs formed a new company, H2fuel, LLC, in January 2001 to develop and commercialize a new Technology for manufacturing hydrogen for fuel cells. Avista Labs owns a 70% interest in H2fuel. The remaining interest is owned by United Fuel Technologies, LLC. Avista Labs will transfer its ongoing fuel processor development work to H2fuel.

AVISTA COMMUNICATIONS

A provider of facilities-based telecommunications solutions in under-served communities throughout Washington, Idaho and Montana, Avista Communications delivers integrated voice and broadband data services over a state-of-the-art network, offering business customers a choice in bundled communications services including data transport, Internet access and local voice services. Continually seeking new ways to leverage advancing technology, Avista Communications is dedicated to creating competitive advantages for customers delivered by experienced teams of local experts. The total number of lines sold at December 31, 2000 was over 7,200, with approximately 5,400 lines installed.

Based in Spokane, Avista Communications currently serves customers in 10 northwest markets including Billings, Montana; Coeur d'Alene, Post Falls, Moscow and Lewiston, Idaho; Spokane, Yakima, Bellingham, Clarkston and Pullman, Washington. In 2001, Avista Communications expects to add additional products and services to complement its strategic direction toward the convergence of voice and data service delivery for business customers in communities with populations under 500,000.

AVISTA VENTURES LINE OF BUSINESS

The Avista Ventures line of business includes Avista Ventures and several other minor subsidiaries, including Pentzer Corporation, Avista Development and Avista Services. Avista Ventures was formed in April 2000 to align Avista Corp.'s investment and acquisition activities in the strategic growth areas of energy, information and technology.

ENERGY TRADING AND MARKETING OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
AVISTA ENERGY			
REVENUES (Thousands of Dollars):			
Electric	\$4,721,291	\$4,745,615	\$1,665,348
Natural gas	1,751,264	1,900,487	743,386
Coal	58,996	49,569	--
Total revenues	\$6,531,551	\$6,695,671	\$2,408,734
SALES VOLUMES:			
Electricity (Thousands of MWhs)	105,548	135,099	54,430
Natural gas (Thousands of dekatherms)	309,160	775,822	424,152
Coal (Thousands of tons)	3,514	1,638	--

INFORMATION AND TECHNOLOGY OPERATING STATISTICS

	Years Ended December 31,		
	2000	1999	1998
AVISTA ADVANTAGE			
Contracted Sites	65,858	26,056	5,603
Billed Sites	46,127	21,186	3,081
AVISTA LABS			
Beta Units Produced	114	n/a	n/a
Beta Units Installed	29	n/a	n/a
AVISTA COMMUNICATIONS			
Lines Sold	7,248	2,857	n/a
Lines Installed	5,395	1,598	n/a

n/a - not available

AVISTA CORPORATION

ITEM 2. PROPERTIES

AVISTA UTILITIES

Avista Utilities' electric properties, located in the States of Washington, Idaho and Montana, include the following:

Generating Plants

	No. of Units	Nameplate Rating (MW) (1)	Present Capability (MW) (2)	Year of FERC License Expiration
Hydroelectric Generating Stations (River)				
Washington:				
Long Lake (Spokane)	4	70.0	88.0	2007
Little Falls (Spokane)	4	32.0	36.0	n/a
Nine Mile (Spokane)	4	26.4	24.5	2007
Upper Falls (Spokane)	1	10.0	10.2	2007
Monroe Street (Spokane)	1	14.8	14.8	2007
Idaho:				
Cabinet Gorge (Clark Fork)	4	231.3	236.0	2045 (3)
Post Falls (Spokane)	6	14.8	18.0	2007
Montana:				
Noxon Rapids (Clark Fork)	5	466.2	528.0	2045 (3)
Total Hydroelectric		865.5	955.5	
Thermal Generating Stations				
Washington:				
Kettle Falls	1	50.7	49.0	
Northeast (Spokane) CT	2	61.2	68.0	
Idaho:				
Rathdrum CT	2	166.5	176.0	
Montana:				
Colstrip (Units 3 and 4) (4)	2	233.4	222.0	
Total Thermal		511.8	515.0	
Total Generation Properties		1,377.3	1,470.5	

n/a not applicable.

- (1) Nameplate Rating, also referred to as "installed capacity", is the manufacturer's assigned power rating under specified conditions.
- (2) Capability is the maximum generation of the plant without exceeding approved limits of temperature, stress and environmental conditions.
- (3) On February 23, 2000, the Company received a new operating license for Cabinet Gorge and Noxon Rapids. (See Item 1. Business: Avista Utilities - Hydroelectric Relicensing for additional information.)
- (4) Jointly owned; data above refers to Avista Utilities' 15% interest.

Electric Distribution and Transmission Plant

Avista Utilities operates approximately 12,200 miles of primary and secondary distribution lines in its electric system in addition to a transmission system of approximately 575 miles of 230 kV line and 1,520 miles of 115 kV line. Avista Utilities also owns a 10% interest in 495 miles of a 500 kV line between Colstrip, Montana and Townsend, Montana.

The 230 kV lines are used to transmit power from Avista Utilities' Noxon Rapids and Cabinet Gorge hydroelectric generating stations to major load centers in its service area, as well as to transfer power between points of interconnection with adjoining electric transmission systems. These lines interconnect with Bonneville at five locations and at one location each with PacifiCorp, Montana Power and Idaho Power Company. The Bonneville interconnections serve as points of delivery for power from the Colstrip generating station, as well as for the

interchange of power with entities outside the Pacific Northwest. The interconnection with PacifiCorp is used to integrate Mid-Columbia hydroelectric generating facilities to Avista Utilities' loads, as well as for the interchange of power with entities within the Pacific Northwest.

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

Natural Gas Plant

Avista Utilities has natural gas distribution mains of approximately 3,877 miles in Washington and Idaho and 1,849 miles in Oregon and California, as of December 31, 2000.

Avista Utilities, Northwest Pipeline and Puget Sound Energy each own a one-third undivided interest in the Jackson Prairie Natural Gas Storage Project, which has a total peak day deliverability of 8.8 million therms, with a total working natural gas inventory of 190.3 million therms.

ITEM 3. LEGAL PROCEEDINGS

See Note 22 of Notes to Financial Statements for additional information.

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

None.

PART II

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

Outstanding shares of Common Stock are listed on the New York and Pacific Stock Exchanges. As of February 28, 2001, there were approximately 19,066 registered shareholders of the Company's no par value Common Stock.

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

For additional information, refer to Notes 1, 18 and 21 of Notes to Financial Statements. For high and low stock price information, refer to Note 24 of Notes to Financial Statements.

AVISTA CORPORATION

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
	2000	1999	1998	1997	1996
	(Thousands of Dollars except Per Share Data and Ratios)				
Operating Revenues:					
Avista Utilities	\$ 1,512,101	\$ 1,115,647	\$ 1,049,212	\$ 891,665	\$ 798,994
Energy Trading and Marketing	6,531,551	6,695,671	2,408,734	247,028	--
Information and Technology	11,645	4,851	1,995	1,030	813
Avista Ventures	32,937	122,303	231,483	163,598	145,150
Intersegment eliminations	(176,744)	(33,488)	(7,440)	(1,149)	--
Total	\$ 7,911,490	\$ 7,904,984	\$ 3,683,984	\$ 1,302,172	\$ 944,957
Operating Income/(Loss) (pre-tax):					
Avista Utilities	\$ 3,177	\$ 142,567	\$ 143,153	\$ 178,289	\$ 173,658
Energy Trading and Marketing	250,196	(97,785)	22,826	6,577	(649)
Information and Technology	(40,084)	(13,002)	(5,192)	(5,364)	(1,443)
Avista Ventures	(9,861)	(423)	12,033	9,962	15,355
Total	\$ 203,428	\$ 31,357	\$ 172,820	\$ 189,464	\$ 186,921
Net Income/(Loss):					
Avista Utilities	\$ (38,781)	\$ 59,573	\$ 56,297	\$ 100,777 (3)	\$ 62,404
Energy Trading and Marketing	161,753	(60,739)	14,116	5,346	(414)
Information and Technology	(28,408)	(8,620)	(3,398)	(3,425)	(919)
Avista Ventures	(2,885)	35,817	11,124	12,099	22,382
Total	\$ 91,679	\$ 26,031	\$ 78,139	\$ 114,797	\$ 83,453
Preferred Stock Dividend Requirements	\$ 23,735 (1)	\$ 21,392 (1)	\$ 8,399 (1)	\$ 5,392	\$ 7,978
Income Available for Common Stock	\$ 67,944	\$ 4,639	\$ 69,740	\$ 109,405 (3)	\$ 75,475
Outstanding Common Stock (000s):					
Weighted Average	45,690	38,213 (1)	54,604 (1)	55,960	55,960
Year-End	47,209	35,648 (1)	40,454 (1)	55,960	55,960
Book Value per Share	\$ 15.34	\$ 11.04 (1)	\$ 12.07 (1)	\$ 13.36	\$ 12.70
Earnings per Share:					
Avista Utilities	\$ (1.36)	\$ 1.00	\$ 0.88	\$ 1.70 (3)	\$ 0.97
Energy Trading and Marketing	3.51	(1.59)	0.26	0.10	(0.01)
Information and Technology	(0.62)	(0.23)	(0.06)	(0.06)	(0.01)
Avista Ventures	(0.06)	0.94	0.20	0.22	0.40
Total, Diluted	\$ 1.47	\$ 0.12	\$ 1.28	\$ 1.96	\$ 1.35
Total, Basic	\$ 1.49	\$ 0.12	\$ 1.28	\$ 1.96 (3)	\$ 1.35
Dividends Paid per Common Share	\$ 0.48	\$ 0.48 (2)	\$ 1.05 (2)	\$ 1.24	\$ 1.24
Total Assets at Year-End:					
Avista Utilities	\$ 2,129,614	\$ 1,976,716	\$ 2,004,935	\$ 1,926,739	\$ 1,921,429
Energy Trading and Marketing	10,271,834	1,595,470	955,615	212,868	320
Information and Technology	59,632	26,379	7,461	3,475	1,517
Avista Ventures	102,844	114,929	285,625	268,703	254,032
Total	\$12,563,924	\$ 3,713,494	\$ 3,253,636	\$ 2,411,785	\$ 2,177,298
Long-term Debt at Year-End	\$ 679,806	\$ 718,203	\$ 730,022	\$ 762,185	\$ 764,526
Company-Obligated Mandatorily Redeemable Preferred Trust Securities ...	\$ 100,000	\$ 110,000	\$ 110,000	\$ 110,000	--
Preferred Stock Subject to Mandatory Redemption at Year-End	\$ 35,000	\$ 35,000	\$ 35,000	\$ 45,000	\$ 65,000
Convertible Preferred Stock	--	\$ 263,309	\$ 269,227 (1)	--	--
Ratio of Earnings to Fixed Charges	3.26	1.61	2.66	3.49	2.97
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	2.06	1.07	2.25	3.12	2.50

(1) In December 1998, the Company 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. (See Note 15 of Notes to Financial Statements.)

(2) The Company paid a quarterly common stock dividend of \$0.31 per share through the third quarter of 1998. Beginning in the fourth quarter of 1998, the quarterly common stock dividend was reduced to \$0.12 per share.

(3) Includes the \$41.4 million after-tax effect of an IRS income tax recovery related to the Company's investment in the terminated nuclear project 3 of the Washington Public Power Supply System.

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

OVERVIEW

Avista Corporation (Avista Corp. or the Company) operates as an energy, information and technology company with a regional utility operation and subsidiary operations located in the Pacific Northwest. The Company's 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. As of December 31, 2000, the Company had common equity investments of \$363.0 million and \$361.2 million in Avista Utilities and Avista Capital, respectively.

In addition to providing electricity and natural gas distribution and electric transmission 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. In addition, Avista Utilities has a number of long-term power purchase and exchange contracts that increase its available resources. With this diverse energy resource portfolio, Avista Utilities remains one of the nation's lowest-cost producers of electric energy services.

Avista Utilities sells and purchases electric capacity and energy at wholesale to and from utilities and other entities under firm long-term contracts having terms of more than one year. In addition, Avista Utilities engages in short-term sales and purchases in the wholesale market as part of an economic selection of resources to serve its retail and firm wholesale loads. Avista Utilities makes continuing projections of (1) future retail and firm wholesale loads based on, among other things, forward estimates of factors such as customer usage and weather as well as historical data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities makes purchases and sales of energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements, as it operates the lowest-cost resources to serve its load requirements, and sells any surplus at the best available price. This process includes hedging transactions. In the second quarter of 2000, certain wholesale transactions contributed to significant losses in Avista Utilities, as more fully discussed below in "Results of Operations".

The Energy Trading and Marketing line of business excludes the regulated utility operations, Avista Utilities, and is comprised of Avista Energy, Inc. (Avista Energy), Avista Power, Inc. (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). Avista Energy is an electricity and natural gas trading and marketing business, operating primarily in the Western Systems Coordinating Council (WSCC). Avista Power was formed to develop and own generation assets. Avista-STEAG is a joint venture between Avista Capital and STEAG AG, a German independent power producer, to develop electric generating assets.

The Information and Technology line of business is comprised of Avista Advantage, Inc. (Avista Advantage), Avista Laboratories, Inc. (Avista Labs) and Avista Communications, Inc. (Avista Communications). Avista Advantage is a business-to-business e-commerce enabled portal that provides a variety of energy-related products and services to commercial and industrial customers on a North American basis. Its primary product lines include consolidated billing, resource accounting, energy analysis, load profiling, and maintenance and repair billing services. Avista Labs is in the process of developing both modular Proton Exchange Membrane (PEM) fuel cells for power generation at the site of the consumer or industrial user and fuel cell components. Avista Communications is an Integrated Communications Provider (ICP) providing local dial tone, data transport, internet services, voice messaging and other telecommunications services to under-served communities in the Western U.S. In April 2000, Avista Communications and Avista Fiber, Inc. merged operations, with Avista Communications now additionally responsible for designing, building and managing metropolitan area fiber optic networks.

The Avista Ventures line of business includes Avista Ventures, Inc. (Avista Ventures), and several other minor subsidiaries. This line of business is responsible for investing in business opportunities that have potential value in the lines of business in which the Company is already involved.

SIGNIFICANT CHANGES IN ENERGY MARKETS

Regulatory, political, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, presenting both opportunities and challenges.

These changes have had a significant effect on energy markets. Historically, the price of power in wholesale markets has been affected primarily by production costs and by other factors including streamflows, the availability of hydro and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil for thermal generating units. Any combination of these factors that resulted in a shortage of energy or increased cost of production generally caused the market price of power to move upward. Now, however, wholesale power market prices appear to react more independently from traditional cost-driven and supply and demand factors. Significant emerging factors include the gradual depletion of excess generating capacity in the WSCC, increasing instances of transmission congestion and increased ownership of generating facilities by entities which are not traditional "public utilities". Wholesale power markets have been affected by the restructuring of electric utility regulation at the state and federal levels.

Wholesale power prices rose dramatically starting in the second quarter of 2000 and remain significantly above historic levels in the Pacific Northwest and throughout the WSCC. Federal and state officials, including the Federal Energy Regulatory Commission (FERC) and the California Public Utility Commission (CPUC), commenced reviews to determine the cause of the market changes. Additionally, President Bush has appointed Vice President Cheney to chair an energy policy task force at least in part as a response to the extreme market pressures and power shortages that have affected California and other parts of the WSCC. The governors of Washington, Oregon and Idaho have also become involved in seeking to stabilize power market prices and the availability of power in the region.

California Energy Crisis. During 2000, particularly in the fourth quarter, the changes in Western energy markets resulted in an energy supply shortage that particularly affected power availability in California. Power shortages, coupled with California's power market structure, led to the two largest of California's three investor-owned utilities (IOUs), Southern California Edison (SCE) and Pacific Gas & Electric (PG&E), issuing warnings of their impending inability to meet payment commitments. In the first quarter of 2001, SCE and PG&E defaulted on several hundred million dollars of payment obligations owed to various creditors. Because of regulatory changes that were adopted by California law in 1997, California's IOUs were required to divest ownership of much of their owned power generation capacity, to sell output from their remaining generating plants into a power market, to reduce retail customer prices and hold them at a fixed level until certain transition charges were amortized, and to buy all requirements for customers' needs through short-term purchases from the newly-created California Power Exchange (CalPX), California Independent System Operator (CalISO), Automated Power Exchange (APX) and other specified entities. As demand began to outstrip supply in California, the price of power skyrocketed and these IOUs bought power at much higher prices than they sold it to end users. They exhausted their credit and capital capacity early in 2001. The PG&E and SCE defaults resulted in subsequent defaults by CalPX, CalISO and APX in amounts the latter three parties owed to Avista Energy.

There were approximately 50 participants in the CalPX at the end of 2000. Avista Energy participated in transactions with the CalPX and CalISO, primarily as a seller. The CalPX tariff, approved by the FERC, includes a provision that permits backcharges to CalPX participants under certain circumstances to keep its settlement accounts whole in the event of a default by a participant. The CalPX tariff specifies that collateral and contracts of the defaulting parties be liquidated to provide funds to cover their defaults, followed by liquidation of a performance bond posted by participants collectively, before backcharges will be levied. The CalPX did not obtain sufficient collateral from SCE or PG&E to assure their performance, even when signals of their financial difficulties were gaining attention from rating agencies, from the press, and from reports filed by SCE and PG&E with the Securities and Exchange Commission. When SCE and PG&E defaulted, the Governor of California obtained a temporary restraining order (TRO) to block the CalPX from liquidating the SCE and PG&E contracts. When the TRO expired and an injunction was not granted, the Governor invoked emergency executive powers to seize those contracts. The CalPX began levying backcharges by withholding amounts payable to participants and sending invoices for additional amounts. In January 2001, the CalPX gave notice that it was suspending its block forward and day-ahead market operations. Several of the CalPX participants, including PG&E, have protested the backcharges through filings with the FERC and the courts. Avista Energy is among the entities seeking to have the backcharge provisions ruled inoperable by the FERC. In its second round of backcharges in February 2001, the CalPX backcharged remaining participants for the increasing cascade of defaults, leading to the possibility that, if backcharges were continued and additional parties either could not or would not pay amounts so invoiced, the last remaining participant might bear the entire market's settlement obligation. On February 9, 2001, Avista Energy obtained a TRO in Federal Court in the Central District of California that suspended the backcharges and preserved Avista Energy's \$500,000 letter of credit posted to the CalPX for assurance of performance; on March 5, 2001, the court issued a preliminary injunction that continued the relief granted by the TRO and required the escrowing of amounts received by the CalPX. Avista Energy joined in a group of nine complainants to file with the FERC to take action to declare the backcharge practices to be contrary to the tariff's

purpose, to declare the backcharges to be inoperable because of the removal of the SCE and PG&E contracts, and to invoke jurisdiction over the CalPX in winding up its affairs. The court action and the FERC complaint are continuing.

Avista Energy participated in the California power market as part of its Western U.S. business focus. At December 31, 2000, Avista Energy had net accounts receivable of \$66.3 million from CalPX, CalISO and APX and had a special bad debt reserve of \$8.3 million against that amount. Avista Energy received \$21.4 million in January and February of 2001 against the \$66.3 million balance, with \$22.5 million being due in March 2001.

Avista Energy also has forward contracts with affiliates of SCE's parent corporation, Edison International (EIX), through its Edison Mission Energy (EME) unit and with affiliates of PG&E's parent corporation, PG&E Corp. (PGC), through entities in its National Energy Group (NEG). EIX and PGC have taken steps collectively referred to as "ring-fencing" to protect EME and NEG, respectively, and their subsidiaries from creditors of their utility business units, SCE and PG&E, respectively. The CPUC and certain customer groups have initiated investigations into the transactions between regulated units of EIX and PGC and their affiliates. Avista Energy is continuing to monitor the situation with respect to EME and NEG counterparties and cannot predict the ultimate outcome of its positions with these entities. Avista Energy does not believe these conditions will have a material adverse impact on the results of operations or its financial position.

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

The Company expects Avista Utilities' electric and natural gas business to earn between \$0.90 and \$1.00 per share for 2001, based on current streamflow and weather projections, anticipated purchased power prices and the continued ability to defer excess purchased power costs. Avista Corp.'s consolidated earnings for 2001 will reflect continued support of the Information and Technology subsidiaries and the expectations for a reduced contribution from Avista Energy as it continues to manage the size and risk of the business. Consolidated earnings per share could be significantly less than the \$0.90 to \$1.00 anticipated from the Avista Utilities business segment.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

2000 COMPARED TO 1999

Overall diluted earnings per share for 2000 were \$1.47, compared to \$0.12 in 1999. The primary reason for the increase was earnings of \$161.8 million recorded by the Energy Trading and Marketing line of business, after a loss of \$60.7 million in 1999 recorded by this business segment. Avista Energy benefited in 2000 from a well-positioned portfolio in the volatile Pacific Northwest and western energy markets. The loss from Avista Energy in 1999 related to expenses associated with the downsizing and restructuring of the business, as well as operational losses. The positive earnings from Avista Energy in 2000 were partially offset by losses from the other lines of business. In February 2000, the Company converted all the remaining outstanding shares of its Series L Preferred Stock back into common stock, which resulted in a one-time charge of \$21.3 million to preferred dividend requirements. In addition, Avista Utilities' operations recorded losses, which were primarily the result of significantly higher purchased power costs that were compounded by short positions related to wholesale trading activity at the utility during the second quarter of 2000. (See paragraphs below for additional information about the higher energy prices and short positions.)

Net income available for common stock increased \$63.3 million in 2000 over 1999. Energy Trading and Marketing's contribution to income available for common stock increased to \$161.8 million over 1999, for earnings of \$3.51 per diluted share in 2000 compared to a loss of \$1.59 per share in 1999, due primarily to the volatile energy market discussed above. Avista Utilities' contribution to income available for common stock decreased \$100.7 million from 1999 due to the conversion costs associated with the convertible preferred stock discussed above, higher purchased power expenses and wholesale trading activities, for a loss of \$1.36 per diluted share in 2000 compared to a contribution of \$1.00 in 1999. Information and Technology's contribution to income available for common stock decreased \$19.8 million from 1999, for a loss of \$0.62 per diluted share in 2000 compared to a loss of \$0.23 in 1999, as these businesses continued to grow their operations. The contribution to income available for common stock from the Avista Ventures line of business decreased \$38.7 million in 2000, for a loss of \$0.06 per

diluted share in 2000 compared to a contribution of \$0.94 in 1999. The 1999 earnings included transactional gains recorded by Pentzer that totaled \$35.9 million, or \$0.94 per share, from the sale of two groups of portfolio companies.

Total revenues increased \$6.5 million in 2000 over 1999, but there were large changes within the individual lines of business. Avista Utilities' revenues increased 36%, primarily due to increased prices of both electricity and natural gas. Revenues at Avista Energy decreased 2% due to decreased sales volumes of electricity and natural gas from the restructuring and downsizing of the business, offset by sharply higher prices. Revenues from the Information and Technology companies increased 140% to \$11.6 million as these companies continued to grow their businesses. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. The large increase in 2000 over 1999 was primarily due to an entire year of activity under the agency agreement whereby Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation contract rights and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers.

Resource costs decreased \$97.7 million in total. Avista Utilities' resource costs increased 73%, primarily due to electric and natural gas commodity prices. Avista Energy's resource costs decreased 7%, due to decreased energy trading volumes but offset by the increased prices of commodities. Intersegment eliminations also increased due to an entire year of activity under the agency agreement between Avista Utilities and Avista Energy.

Operations and maintenance, administrative and general, and depreciation and amortization expenses were all primarily impacted by the Information and Technology and Avista Ventures lines of business. All three categories of expenses increased at the Information and Technology companies as they continued to grow their businesses. All three categories of expenses decreased at the Avista Ventures line of business as a result of the sales of portfolio companies by Pentzer during 1999.

Interest expense increased \$3.6 million in 2000 over 1999, primarily due to higher levels of outstanding debt during the year. During 2000, \$224.0 million of long-term debt was issued, while \$54.6 million of long-term debt matured and \$10.0 million of Preferred Trust Securities were repurchased. Long-term debt and short-term borrowings outstanding at December 31, 2000 were \$217.1 million higher than at the end of 1999.

Income taxes increased \$56.7 million in 2000 over 1999, primarily due to increased earnings recorded by the Energy Trading and Marketing line of business and gains on the sale of the Centralia Power Plant (Centralia) recorded by Avista Utilities. Income taxes in 1999 were lower than normal primarily as a result of the operational losses and restructuring charges incurred by Avista Energy.

Preferred stock dividend requirements increased \$2.3 million in 2000 over 1999 due to the conversion costs and dividends paid associated with converting the Convertible Preferred Stock, Series L, into common stock in February 2000.

1999 COMPARED TO 1998

Overall diluted earnings per share for 1999 were \$0.12, compared to \$1.28 in 1998. The primary reason for the decrease was a \$60.7 million after-tax loss recorded by the Energy Trading and Marketing line of business, due to a \$27.3 million after-tax charge recorded by Avista Energy related to the downsizing and restructuring of the business, and \$32.1 million of after-tax operational losses due to warmer than normal weather across the nation, soft national energy markets and a lack of volatility within those markets. The restructuring charge includes a charge for impairment of assets from the purchase of Vitol in February 1999 and reserves for severance and other related expenses. In December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of Convertible Preferred Stock, Series L, which resulted in an increase of \$13.4 million in preferred stock dividend requirements in 1999 over 1998. In addition, the utility operations recorded charges of approximately \$5 million related to the impairment of utility assets, which were partially offset by the reversal of certain environmental reserves. These charges were partially offset by the \$35.9 million of transactional gains recorded by Pentzer due to the sales of two groups of portfolio companies.

Net income available for common stock decreased \$65.1 million in 1999 from 1998. Avista Utilities' income available for common stock decreased \$9.8 million from 1998 due to the increased preferred stock dividend associated with the Convertible Preferred Stock, contributing \$1.00 per diluted share for 1999, compared to \$0.88 in 1998. Energy Trading and Marketing's income available for common stock decreased \$74.9 million from 1998, for a loss of \$1.59 per diluted share in 1999, as compared to a contribution of \$0.26 per share in 1998, due primarily to the restructuring charges and operational losses discussed above. Information and Technology's income available

for common stock decreased \$6.8 million from 1998, for a loss of \$0.27 per share in 1999, compared to a loss of \$0.06 in 1998, due primarily to continued start-up and expansion costs. Income available for common stock from the Avista Ventures line of business increased \$26.3 million in 1999 and contributed \$0.98 to diluted earnings per share in 1999, compared to \$0.20 per share in 1998. Transactional gains recorded by Pentzer totaled \$35.9 million, or \$0.94 per share, and \$4.3 million, or \$0.08 per share, in 1999 and 1998, respectively.

Total revenues increased \$4.22 billion in 1999 over 1998, primarily due to the growth of Avista Energy's business as a result of its acquisition of Vitol. Resource costs increased \$4.40 billion, again primarily as a result of the growth in Avista Energy's business. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. The large increase in 1999 over 1998 was primarily due to an agreement whereby Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers. Gross margins for Avista Utilities decreased \$3.0 million primarily due to larger increases in purchased power costs than in the associated wholesale revenues. Avista Energy's gross margin decreased \$66.6 million to a negative \$17.9 million, primarily due to losses on positions taken in anticipation of certain weather patterns in particular areas of the country which did not occur. Operations and maintenance expenses decreased \$74.4 million, primarily due to decreased expenses as a result of the sales of portfolio companies by Pentzer. Administrative and general expenses decreased \$1.8 million primarily due to decreased expenses as a result of the sales of portfolio companies by Pentzer, partially offset by increased salary expenses from the growth in Avista Energy's business and the purchase of Vitol, which added significantly to staffing levels, and increased start-up costs at the Information and Technology companies.

Interest expense decreased \$4.0 million in 1999, as compared to 1998, primarily due to lower levels of outstanding debt during the year. During 1999, \$108.7 million of long-term debt was issued, while \$208.3 million of long-term debt matured or was redeemed. At December 31, 1999, \$118.5 million of notes payable were outstanding, compared to no balances at December 31, 1998. Long-term debt outstanding at December 31, 1999 was \$11.8 million lower than at the end of 1998.

Income taxes decreased \$26.6 million, or 61%, in 1999 from 1998, primarily due to losses and restructuring charges incurred by the Energy Trading and Marketing line of business, which were partially offset by higher taxes resulting from the transactional gains from the sales of the portfolio companies by Pentzer.

Preferred stock dividend requirements increased \$13.0 million in 1999 over 1998 due to the exchange of shares of common stock for shares of \$12.40 Convertible Preferred Stock, Series L, which occurred in December 1998 and the redemption of the final \$10.0 million of Preferred Stock, Series I in June 1998.

AVISTA UTILITIES

2000 COMPARED TO 1999

Avista Utilities' pre-tax income from operations was \$3.2 million in 2000, or a decrease of \$139.4 million from 1999. The loss resulted primarily from significantly higher electric energy prices in wholesale markets, compounded by a short position related to wholesale trading activity. The results for 2000 include a \$9.0 million after-tax gain recorded as a result of the sale of its interest in Centralia. The balance of the total after-tax gain of \$37.2 million from the sale of Centralia was deferred and has been or will be returned to Avista Utilities' customers through rates. Avista Utilities' operating revenues and expenses increased \$396.5 million and \$535.8 million, respectively, in 2000 over 1999.

During 2000, Avista Utilities purchased energy in order to meet system obligations to serve retail and wholesale customers. Unprecedented sustained peaks in electric energy prices throughout the WSCC beginning in May 2000, compounded by a wholesale short position discussed below, contributed to significant losses recorded by Avista Utilities in the second quarter of 2000. The cost of these power purchases was significantly higher than the amounts currently being recovered from customers. The increased purchased power prices caused a reduction in gross margin of approximately \$138.9 million in 2000 from 1999. Based on historical trends, Avista Utilities' business plan had forecast on-peak power prices of approximately \$19 per megawatthour for May and June of 2000. On-peak power costs in the market averaged \$60 per megawatthour in May and over \$180 per megawatthour in June, with hourly spikes as high as \$1,300 per megawatthour.

On August 9, 2000, the Washington Utilities and Transportation Commission (WUTC) approved Avista Utilities' request for deferred accounting treatment for certain power costs related to increases in short-term power prices beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to Avista Utilities from those included in base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to Avista Utilities associated with these three power cost components, and the level of costs included in Avista Utilities' base retail rates. The power costs deferred are related solely to the operation of Avista Utilities' system resources to serve its system retail and wholesale load obligations.

On January 24, 2001, the WUTC approved a modification to the deferral mechanism to recover power supply costs associated with meeting increased retail and wholesale system load requirements, effective December 1, 2000. The WUTC also required Avista Utilities to file a proposal by mid-March 2001 that will address the prudence of the incurred power costs, the optimization of Company-owned resources to the benefit of retail customers, the appropriateness of recovery of power costs through a deferral mechanism, a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs. Avista Utilities also plans to file for an extension of this deferred accounting treatment beyond June 30, 2001.

On January 16, 2001, Avista Utilities filed an application with the Idaho Public Utilities Commission (IPUC) seeking proposed modifications to the existing Power Cost Adjustment (PCA) mechanism. Due to extremely high short-term power prices, Avista Utilities is requesting to recover power supply costs associated with meeting increased retail and wholesale system load requirements, as well as to recover replacement power costs associated with possible thermal plant forced outages.

During 2000, Avista Utilities deferred \$33.9 million in power costs in Washington and \$4.5 million in Idaho under the PCA mechanism currently in place.

Based on Avista Utilities' views of streamflows, historic market prices and energy availability in the second quarter of 2000, Avista Utilities entered into contracts and sold call options for fixed-price power for delivery through the remainder of 2000, without making matching purchases at the same time, and also made certain short-term sales at fixed prices which were offset by purchases at prices indexed to the market price at the time of delivery. Certain of these wholesale trading positions were outside normal operating guidelines. Avista Utilities was required to buy additional power not only to meet its obligations to its retail and long-term wholesale customers, as described above, but also to cover its wholesale trading positions. An orderly process to complete the necessary power purchases was impeded by the rapid escalation of market prices and lack of liquidity in the power markets. These purchases were made at fixed prices significantly higher than the related selling prices and at index, which settled at unprecedented levels in June. The pricing of these purchases caused the majority of Avista Utilities' loss for the second quarter.

Avista Utilities' short position was compounded by the May 5 sale of its interest in Centralia, which reduced its system capacity by 201 megawatts. Based on historical trends and Avista Utilities' views on power prices and availability of power for May and June, Avista Utilities did not seek to replace the Centralia generation for those two months with firm commitments. Avista Utilities entered into a three-and-one-half-year contract to purchase 200 megawatts from TransAlta beginning in July 2000.

On September 29, 2000, the WUTC ordered a \$3.4 million, or 1.4%, reduction in electric rates and a \$1.7 million, or 2.1%, increase in natural gas rates. Avista Utilities had filed a request with the WUTC in October 1999 for a general electric rate increase of \$26.2 million, or 10.4%, subsequently revised to \$18.2 million, and a general natural gas rate increase of \$4.9 million, or 6.5%. The WUTC also ordered that Avista Utilities' annual rate of return on investment for both electricity and natural gas be reduced from 10.7% to 9.03%. Avista Utilities had requested a 9.9% rate of return. Avista Utilities filed a Petition for Reconsideration before the WUTC requesting that the commission reconsider certain portions of its order. On November 8, 2000, the Commission slightly modified the original order by reducing the electric reduction from \$3.4 million to \$2.9 million and increasing the natural gas increase from \$1.7 million to \$1.8 million.

Retail electric revenues increased \$10.6 million in 2000 over 1999 due primarily to increased prices, as well as greater sales volumes due to customer growth and increased usage due to weather. Wholesale electric revenues increased \$342.3 million, or 66%, while sales volumes decreased 20% in 2000 compared to 1999, reflecting average sales prices 107% higher in 2000. Wholesale sales volumes decreased due to management's decision in mid-year to reduce power imbalance volume limits (the difference between projected load obligations and projected resource availability), based on the emergent market price volatility, and to focus primarily on energy transactions necessary

to efficiently manage power resources to meet retail customer loads and wholesale obligations. The extent of future wholesale transactions will be determined based on resource additions or changes and load obligations and contract commitments. Wholesale transactions continue to be an integral tool in efficiently managing and economically dispatching Avista Utilities' power resource availability to meet supply obligations within the coordinated Pacific Northwest power grid.

Natural gas revenues increased \$37.4 million in 2000 over 1999. Retail natural gas revenues increased \$49.0 million, primarily due to increased natural gas prices, but were offset by a \$9.5 million decrease in non-retail sales. Non-retail natural gas sales are sales of natural gas commodity and related services outside of the Avista Utilities distribution system to other utilities and large industrial customers. Revenues from these sales are offset by like increases in purchased gas expense, and margins from these transactions are credited back to retail customers through rate changes approved by state regulators for the cost of natural gas. Non-retail sales have decreased since mid-1999 primarily due to the agency agreement between Avista Utilities and Avista Energy mentioned above. Avista Energy will make the majority of these sales in the future, if it is optimal to managing the natural gas portfolio. The utility commissions of Washington, Idaho and Oregon have approved Benchmark Incentive Mechanisms that allow Avista Utilities and its customers to share some of the benefits of Avista Energy's resource optimization activities.

Purchased power volumes were 15% lower in 2000 primarily due to decreased wholesale sales, but purchased power prices averaged 132% higher, resulting in a \$529.0 million, or 97%, increase in purchased power expense in 2000 over 1999. The \$33.9 million deferral of power costs pursuant to the WUTC accounting order and the \$4.5 million deferred under the Idaho PCA partially offset purchased power expense recognized in 2000. Streamflows in 2000 were 86% of normal compared to 112% in 1999. Fuel for power generation expense increased \$22.7 million due to increased generation at the thermal plants as a result of increased demand for power and increases in natural gas commodity prices. Purchased natural gas costs increased \$39.7 million in 2000, primarily due to increased prices for the commodity, increased volumes of sales due to customer growth and increased usage due to weather.

Operations and maintenance expenses increased \$5.6 million, or 10%, due to a variety of items, including increased distribution expenses, higher fees associated with the increased amount of customer accounts receivables sold, increased accruals for uncollectible accounts and other expenses related to customer accounting services.

1999 COMPARED TO 1998

Avista Utilities' pre-tax income from operations decreased \$0.6 million in 1999 from 1998. Operating revenues and expenses increased \$66.4 million and \$67.0 million, respectively, during 1999.

Retail electric revenues increased \$9.0 million due to increased kWh sales of 3% due to customer growth of 1.5% and slightly cooler weather in Avista Utilities' service area in 1999 than in 1998. Wholesale electric revenues increased \$65.2 million, primarily due to prices 11% greater and sales volumes 3% higher in 1999 over 1998. Natural gas revenues decreased \$5.7 million primarily as a result of decreased non-retail sales, partially offset by increased retail sales due to customer growth and increased customer usage as a result of slightly cooler weather in Avista Utilities' service area in 1999.

Purchased power volumes increased 2% and prices were 13% higher than the previous year, which resulted in a \$72.9 million, or 15%, increase in purchased power expense in 1999 over 1998. This increase accounted for the majority of the increase in Avista Utilities' operating expenses. Operations and maintenance expenses decreased \$4.6 million in 1999 from 1998 as a result of fewer storms, resulting in less storm damage, and realizing the benefit of preventive maintenance programs such as cable replacement, pole test and treat, and tree trimming. Administrative and general expenses decreased \$3.3 million due to increased expenditures during 1998 associated with the change in executive officers and the corporate name change. Avista Utilities also recorded charges of approximately \$5 million related to impairment of assets, which primarily included items such as deferred charges now deemed unrecoverable through rates and a defective inventory software system.

ENERGY TRADING AND MARKETING

Energy Trading and Marketing includes the results of Avista Energy, Avista Power, and Avista-STEAG. Avista Power and Avista-STEAG operations had minimal impact on earnings in 2000, 1999 or 1998. Avista Energy maintains an energy trading portfolio that it marks to fair market value on a daily basis (mark-to-market accounting), and which may cause earnings variability in the future. Market prices are utilized in determining the value of the electric, natural gas and related derivative commodity instruments. For longer-term positions, in addition to market prices, a model based on forward price curves is also utilized. See Liquidity and Capital Resources: Risk Management and Note 4 of Notes to Financial Statements for additional information about market risk and credit risk.

2000 COMPARED TO 1999

Energy Trading and Marketing's income available for common stock for 2000 was \$161.8 million compared to a loss of \$60.7 million in 1999. Avista Energy's operations in 2000 were positively affected by a well-positioned portfolio in the volatile Pacific Northwest and western electric markets. Avista Energy's operations were negatively impacted by losses from the liquidation of its Eastern electric book and associated operating costs to close its Eastern operations in Houston and Boston.

In November 1999, Avista Energy began redirecting its focus away from national energy trading toward a more regionally-based energy trading and marketing effort in the West. Its more narrowly focused operations in the West are backed by contracts for energy commodities and by the output of specific facilities available under contracts. The change in strategy followed significant changes in the overall energy trading and marketing industry that created low margins while requiring higher levels of investment, credit commitments and value-at-risk limits. By late 1999, mergers and consolidations within the industry reduced the number of firms and increased the remaining firms' typical size, leaving a marketplace where liquidity and volatility were not favorable. Avista Energy shut down its operations in Houston and Boston during the first and second quarters of 2000 and reduced its workforce by approximately 80 positions. The Eastern electric book was sold at a \$1.0 million after-tax loss in early 2000. The remaining Eastern natural gas contracts, primarily for transportation and storage, are being managed out of the Spokane office until the last of the contracts expire in 2002.

Energy Trading and Marketing's revenues and operating expenses decreased \$164.1 million and \$512.1 million, respectively, in 2000 from 1999. The decrease in revenues was primarily due to lower sales volumes, partially offset by increased prices. The decreased expenses primarily resulted from decreased volumes of transactions, partially offset by increased resource costs due to increased commodity prices, and the closure of Avista Energy's Eastern operations and refocusing the business to the West.

The volume of power and natural gas sales decreased significantly as Avista Energy's focus was redirected to the WSCC. Electric sales volumes decreased 22%, while natural gas sales decreased 60%. The exception to this was the comparatively minor coal sales, which increased 115% in volume in 2000 over 1999. However, after the Houston and Boston offices were closed, no more coal sales were made and the remaining contracts expired by the end of 2000, so there will be no more coal sales or revenues to the future.

Energy Trading and Marketing's balance sheet increased \$8.68 billion from December 1999 to December 2000. Avista Energy's energy commodity assets and liabilities increased primarily as a result of significant price increases for both natural gas and power during this period. Trade receivables and payables increased due to higher market prices on current positions.

1999 COMPARED TO 1998

Energy Trading and Marketing income available for common stock for 1999 was an after-tax loss of \$60.7 million compared to earnings of \$14.1 million in 1998. The primary reason for the decrease was a \$27.3 million after-tax charge recorded by Avista Energy related to the downsizing and restructuring of the business, and \$32.1 million of after-tax operational losses due to warmer than normal weather across the nation, soft national energy markets and a lack of volatility within those markets. The restructuring charge consisted of a \$21.4 million after-tax charge for the write-off of goodwill from the purchase of Vitol in February 1999 and a \$5.9 million after-tax reserve for severance payments and other related expenses. Avista Energy recognized losses (1) on positions taken in anticipation of certain weather patterns in particular areas of the country, which lost value when the expected patterns did not occur, and (2) on options, also taken in anticipation of certain weather patterns in particular areas of the country, which expired unexercised when the expected patterns did not occur.

Since its inception in 1997, Avista Energy developed and expanded its business and added experienced traders and staff. This growth continued in 1999 with Avista Energy's purchase of Vitol in the first quarter. Vitol, located in Boston, Massachusetts, was one of the top 20 energy marketing companies in the United States. Late in the second quarter of 1999, Avista Energy added a significant number of energy professionals in its Spokane and Houston offices. The integration of Vitol operations into Avista Energy began during the second quarter with the consolidation of back-office support, improvements in accounting and trading processes and personnel, and continued enhancements in risk management systems across Avista Energy.

Energy Trading and Marketing's revenues and operating expenses increased \$4.29 billion and \$4.36 billion, respectively, in 1999 over 1998. The increase in revenues and expenses was primarily the result of Avista Energy continuing to grow its business. Energy Trading and Marketing's assets increased \$639.9 million from December 1998 to December 1999. Avista Energy's energy commodity assets and liabilities increased as a result of additional trading volumes, which were partially offset by market price declines. Trade receivables and payables increased due to additional volumes of sales and purchases.

INFORMATION AND TECHNOLOGY

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Avista Corp. has committed to invest in the continued growth of these information and technology businesses as part of its overall strategic focus on generating shareholder value.

2000 COMPARED TO 1999

Information and Technology's loss attributable to common stock for the year was \$28.4 million compared to a loss of \$8.6 million in 1999. Operating revenues and expenses for this line of business increased \$6.8 million and \$33.9 million, respectively, over 1999, primarily due to growth in each of the individual businesses.

1999 COMPARED TO 1998

Information and Technology's income available for common stock for 1999 was a loss of \$10.2 million, compared to a loss of \$3.4 million in 1998. Increases in revenues and various expense categories for this line of business were primarily due to growth in each of the individual businesses.

AVISTA VENTURES

The Avista Ventures line of business includes the results of Avista Ventures, Pentzer, Avista Development and Avista Services.

2000 COMPARED TO 1999

The loss attributable to common stock from this line of business was \$2.9 million for 2000, compared to earnings of \$35.8 million in 1999. The 2000 loss includes a \$1.2 million after-tax charge recorded by Pentzer in the first quarter for expenses related to employee terminations resulting from a redirection of Pentzer's business focus. The 1999 earnings included transactional gains totaling \$35.9 million, net of taxes, recorded by Pentzer as a result of the sale of its Creative Solutions Group and Store Fixtures Group of portfolio companies, partially offset by a loss on the sale of equipment.

Operating revenues and expenses from this line of business decreased \$89.4 million and \$79.9 million, respectively, during 2000, primarily as a result of the sales of portfolio companies by Pentzer. The Creative Solutions Group of companies was sold at the end of the first quarter of 1999 and the Store Fixtures Group of companies was sold during the third quarter of 1999. Revenues and expenses from these companies were included only in the 1999 amounts.

1999 COMPARED TO 1998

Income available for common stock for 1999 from the Avista Ventures line of business totaled \$35.8 million, which was a \$24.7 million increase over 1998. The increased earnings resulted primarily from transactional gains recorded by Pentzer in 1999 totaling \$35.9 million, net of taxes, from the sales of two groups of portfolio companies. Transactional gains during 1998 totaled \$4.3 million, net of taxes, as a result of the sale of a portfolio company.

Non-transactional earnings totaled \$1.2 million in 1999, a decrease of \$6.2 million from 1998, primarily due to the loss of income resulting from the sales of portfolio companies. Operating revenues and expenses decreased \$109.2 million and \$96.7 million, respectively, primarily as a result of the sales of portfolio companies by Pentzer.

LIQUIDITY AND CAPITAL RESOURCES

OVERALL OPERATIONS

Operating Activities Operating activities provided cash of \$76.2 million in 2000 compared to \$111.2 million in 1999. The primary reasons for the decrease in cash were the second quarter losses at Avista Utilities, not included in retail rates, caused by higher power costs and the funds expended for power and natural gas, but deferred for later recovery from customers. Increased commodity prices that affected both Avista Utilities and Avista Energy were primarily responsible for the large changes in various working capital components, such as receivables and payables.

Investing Activities Investing activities used cash of \$96.9 million in 2000 compared to \$27.2 million in 1999. In 2000, Avista Utilities sold the Centralia Power Plant, resulting in proceeds of approximately \$89.2 million. In 1999, Pentzer sold the Creative Solutions and Store Fixtures groups of companies and Avista Energy acquired Vitol. Utility operations' capital expenditures, excluding Allowance for Funds Used During Construction (AFUDC) and Allowance for Funds Used to Conserve Energy (AFUCE, a carrying charge similar to AFUDC for conservation-related capital expenditures), were \$270 million for the 1998-2000 period.

Financing Activities Financing activities provided net cash of \$175.0 million in 2000 compared to using cash of \$116.8 million in 1999. In 2000, short-term notes payable increased \$42.1 million and \$224.0 million of long-term debt was issued, while \$54.6 million of long-term debt matured or was redeemed. In addition, the Company repurchased \$10.0 million of Preferred Trust Securities. In 1999, short-term notes payable increased \$110.5 million and \$116.5 million of proceeds were received from the issuance of long-term debt, including \$25.0 million of Medium-Term Notes (MTNs). These proceeds, plus cash provided from operating activities, were used to retire \$211.5 million of long-term debt and repurchase \$82.0 million of common stock and \$5.9 million of preferred stock. During the 1998-2000 period, \$296 million of long-term debt and preferred stock matured, was mandatorily redeemed or was optionally redeemed and refinanced at a lower cost.

In August 1998, the Company announced a dividend restructuring plan that reduced the Company's annual common stock dividend from \$1.24 per share to \$0.48 per share, a 61% reduction, which was effective with the payment of the common stock dividend paid on December 15, 1998. At the same time, an exchange offer was made whereby shareholders were provided the opportunity to exchange their shares of common stock for depositary shares, also known as RECONS (Return-Enhanced Convertible Securities). Each RECONS represented a one-tenth ownership interest in one share of mandatorily convertible Series L Preferred Stock. Each RECONS paid an annual dividend of \$1.24 for a period of about three years and after three years would automatically convert back to common stock, unless the Company exercised its option to convert the Series L Preferred Stock prior to the end of the three-year period. Shareholders who chose not to participate in the exchange offer retained their ownership in Avista Corp. common stock. The annual savings resulting from the dividend restructuring were approximately \$30 million for the periods that the preferred stock was outstanding, increasing to about \$42 million annually after the conversion of the preferred shares back to common stock. The savings assisted in funding a portion of the Company's capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. See Note 15 of Notes to Financial Statements for additional information about the convertible preferred stock.

On February 16, 2000, the Company exercised its option to convert all the remaining outstanding shares of Series L Preferred Stock back into common stock. The RECONS were also converted into common stock on the same conversion date, and each of the RECONS was converted into the following: 0.7205 shares of common stock, representing the optional conversion price; plus 0.0361 shares of common stock, representing the optional conversion premium; plus the right to receive \$0.21 in cash, representing an amount equivalent to accumulated and unpaid dividends up until, but excluding, the conversion date. Cash payments were made in lieu of fractional shares.

In March 2000, the Company began issuing new shares of common stock to the Employee Investment Plan rather than the Plan purchasing shares of common stock on the open market. In the fourth quarter of 2000, the Company also began issuing new shares of common stock for the Dividend Reinvestment and Stock Purchase Plan. Through December 31, 2000, a total of 125,636 new shares of common stock were issued to both plans.

In August and December of 2000, the Company issued a total of \$224.0 million of Unsecured MTNs, Series D at rates of 8.000% and 8.625% due in 2001 and 2003. A total of \$44.9 million of Secured MTNs matured during 2000, with rates between 6.13% and 8.20%. As of December 31, 2000, the Company had a total of \$317.0 million of Unsecured MTNs authorized to be issued.

In May 1999, the Company's Board of Directors authorized a common stock repurchase program in which the Company may repurchase in the open market or through privately negotiated transactions up to an aggregate of 10 percent of its common stock and common stock equivalents over the following two years. The repurchased shares will return to the status of authorized but unissued shares. During 1999, the Company repurchased approximately 4.8 million common shares and 322,500 shares of RECONS (which was equivalent to 32,250 shares of Convertible Preferred Stock, Series L). The combined repurchases of these two securities represent 9% of outstanding common stock and common stock equivalents. There was no activity under this plan during 2000.

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

The Company's cash flows have been affected because of the higher power and natural gas costs, as well as cash collateral required for counterparties and trading at Avista Energy. The higher power and natural gas prices are expected to continue to affect cash flows during 2001. The purchased power and natural gas costs incurred to serve the utility's retail customers are generally recovered or expected to be recovered in retail rates, however, there is a lag between the time the costs are incurred by the Company and the time they are collected from customers. As more fully described in Note 1 of Notes to the Financial Statements -- "Power Cost Deferrals and Power and Natural Gas Adjustment Provisions", costs in excess of those included in rates are deferred as an asset on the balance sheet. Deferral balances at the end of 2000 totaled \$78.8 million. Costs during 2001 are expected to continue to exceed the levels included in rates and, as a result, deferral balances are expected to increase during 2001. Because of the continuing high level of power and natural gas prices, a significant change in company resource availability (such as hydro generation) or customer demand could have a significant positive or negative impact on expected deferrals and cash flows. On an interim basis, the Company uses its revolving line of credit to fund these costs to the extent that they exceed the cash flows available from operations. The Company expects to issue longer-term debt during 2001 to pay down balances outstanding under the revolving line of credit. This will provide additional liquidity needed to fund the deferral balances. The Company intends to file applications with regulatory commissions during 2001 to address timing of recovery of the deferred costs. If the commissions approve the Company's requests, the deferral balances are expected to begin being recovered starting in 2001 or 2002. The Company's existing lines of credit are expected to be adequate to meet the current needs.

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. Current forecasts show streamflow conditions for hydroelectric generation for 2001, estimated at 60% of normal, to be among the worst five years on record. In response to the reduced hydroelectric generation, Avista Utilities has made additional fixed price purchases of energy, and expects to receive the necessary local, state and federal approvals to increase the energy output of its natural gas-fired thermal generation to cover its firm retail and wholesale load requirements for 2001, with minimal additional purchases expected from the high cost short-term wholesale market. However, if hydroelectric conditions further deteriorate, its thermal plants do not operate as planned, or weather conditions cause retail loads to increase, Avista Utilities would incur increased costs from increased purchases in the short-term wholesale energy market.

Higher volatility in 2000 in power and natural gas prices and significant increases in average price levels have resulted in the need for energy trading counterparties to provide one another adequate assurances of their future performance on energy transaction obligations. The adequate assurance demands are satisfied through various means, including letters of credit, cash deposits or prepayments, parent entity guaranties, contract terms and portfolio management.

As mentioned earlier, the Company is currently in the process of obtaining separate financing for construction of the Coyote Springs 2 project. The Company is seeking to finance a majority of the costs during construction with a term loan that would match the construction period. The project would serve as collateral for the term loan. If the Company does not complete a separate financing for this project, there would be a need to issue other debt or equity securities during 2001 and 2002 to provide the funding.

The California Energy Crisis discussed earlier has had an impact on banks' willingness to extend credit to energy and utility companies. Banks are particularly concerned with the credit of companies in California and those in the West with exposure to California or the potential to be impacted by what ultimately happens in California. This may impact

the Company's ability to obtain financing from traditional sources. However, the Company currently expects that it will be able to obtain financing required to meet its capital and operating needs on reasonable terms. Capital expenditures are financed on an interim basis with short-term borrowings or notes payable (due within one year). The Company has \$230 million in two committed lines of credit, which expire on June 26, 2001. As part of the renewal of the agreements in 2000, the Company pledged its shares of common stock in Avista Capital as security for these agreements. The Company also had a \$60 million three-month line of credit that expired on October 25, 2000 and was not replaced. In addition, the Company has a \$50 million regional commercial paper program that is backed by the committed lines of credit. During 2000, the Company could also borrow up to \$100 million through other borrowing arrangements with banks, but none of these agreements were in place at year-end. As of December 31, 2000, \$152.0 million was outstanding under the committed line of credit and \$11.2 million was outstanding under the commercial paper program.

From time to time the Company enters into sale/leaseback arrangements for various long-term assets which provide additional sources of funds. See Note 13 of Notes to Financial Statements for additional information about leases.

The Company is restricted under various agreements as to the additional securities it can issue. As of December 31, 2000, under its Restated Articles of Incorporation, approximately \$844.0 million of additional preferred stock could be issued at an assumed dividend rate of 6.95%.

During 1998, the Company entered into an agreement that increased the amount of customer accounts receivable the Company could sell from \$40 million to \$80 million to provide additional funds for capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. At December 31, 2000, \$80.0 million in receivables had been sold pursuant to the agreement.

As part of its ongoing cash management practices and operations, Avista Corp. may, at any time, have short-term notes receivable and payable with Avista Capital. In turn, Avista Capital may also have short-term notes receivable and payable with its subsidiaries. As of December 31, 2000, Avista Corp. had short-term notes receivable of \$113.6 million from Avista Capital, which includes \$56.7 million for the Coyote Springs 2 project, compared to short-term notes payable of \$18.3 million at December 31, 1999.

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled \$361.2 million at December 31, 2000.

AVISTA UTILITIES OPERATIONS

During the 2001-2003 period, utility capital expenditures are expected to be \$478 million, and \$348 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, internally generated funds and external financings will be used to fund the Company's capital expenditure program, maturing long-term debt and preferred stock sinking fund requirements. Sources of funds would include, but are not necessarily limited to, sales of certain assets, additional long-term debt, leasing or issuance of other equity securities. These estimates of capital expenditures are subject to continuing review and adjustment. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements.

See Notes 3, 11, 12, 13, 14, 15, 16, 17 and 18 of Notes to Financial Statements for additional details related to financing activities.

ENERGY TRADING AND MARKETING OPERATIONS

Avista Capital's total investment in this line of business was \$291.7 million at December 31, 2000. Avista Energy funds its ongoing operations with a combination of internally generated cash and a bank line of credit.

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of \$110 million, decreasing periodically to \$70 million at the end of the agreement, and expiring April 30, 2001. Avista Energy is in the process of renewing the line of credit. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the

banks for cash advances is \$30 million, with availability of up to \$110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At December 31, 2000 and 1999, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately \$71.5 million and \$75.8 million at December 31, 2000 and 1999, respectively.

Capital expenditures for the Energy Trading and Marketing companies were \$71.1 million for the 1998-2000 period, primarily due to Avista Power's investment in the Coyote Springs 2 projects. Avista Power's equity investment of \$16 million in Rathdrum is expected to occur in 2001.

At December 31, 2000, the Energy Trading and Marketing companies had \$179.6 million in cash and cash equivalents and \$0.5 million in long-term debt outstanding.

As of December 31, 2000, Avista Capital had loaned \$21.6 million to Avista Energy to support its short-term cash and collateral needs. These loans are subordinate to any obligations to the banks under the credit agreements.

Rising prices in power and natural gas beginning in the second quarter of 2000 and continuing beyond the end of 2000 triggered additional collateral requirements with counterparties. Avista Energy is managing the collateral calls by providing letters of credit, providing guarantees from Avista Capital and offsetting transactions with counterparties. In addition to the letters of credit and other items included above, cash deposited with counterparties totaled \$40.5 million as of December 31, 2000, and is included in the Consolidated Balance Sheets in prepayments and other. The posted collateral will be returned to Avista Energy depending on the effect of changing market values of forward contracts or as forward positions settle. Avista Energy held cash deposits from other parties in the amount of \$96.6 million as of December 31, 2000, and such amounts are subject to refund if conditions warrant because of continuing portfolio value fluctuations with those parties.

Avista Power and Cogentrix Energy, Inc. entered into an agreement to jointly build a 270 megawatt natural gas combustion turbine facility 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 generation expected to start in late 2001. The total cost of the project is estimated at \$160 million; Avista Power's equity in the project is approximately \$16 million.

INFORMATION AND TECHNOLOGY OPERATIONS

Capital expenditures for the Information and Technology companies were \$55.1 million for the 1998-2000 period. The 2001-2003 capital expenditures are expected to be \$61.0 million, and \$0.1 million in debt maturities will also occur. These companies expect to seek outside funding through partnerships or other arrangements to support these capital requirements.

Two venture capital firms made small minority interest investments in Avista Advantage during the fourth quarter of 2000.

At December 31, 2000, the Information and Technology companies had \$1.3 million in long-term debt outstanding.

In early 1999, Avista Labs announced the receipt of a \$2 million technology development award from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program. Avista Labs is working on technology that will increase the energy density of its fuel cell design and develop multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem.

AVISTA VENTURES OPERATIONS

Capital expenditures for these companies were \$18.6 million for the 1998-2000 period. The 2001-2003 capital expenditures are expected to be \$27.3 million, and \$0.5 million in debt maturities will also occur. During the next three years, internally generated cash and other debt obligations are expected to provide the majority of the funds for these capital expenditure requirements. The decrease in these projected capital expenditures is primarily related to the change in Pentzer's focus beginning in 2000.

At December 31, 2000, this line of business had \$1.2 million in cash and cash equivalents and temporary investments, with \$0.8 million in long-term debt outstanding.

TOTAL COMPANY CASH REQUIREMENTS
 (Millions of Dollars)

	Actual			Projected		
	1998	1999	2000	2001	2002	2003
Avista Utilities operations:						
Capital expenditures(1)	\$ 92	\$ 86	\$100	\$256	\$131	\$ 91
Debt and preferred securities maturities and redemptions(2)	24	214	55	89	52	207
Total Avista Utilities	116	300	155	345	183	298
Avista Capital operations:						
Capital expenditures(3)	14	29	101(4)	38	28	22
Investments	53	51	4	29	--	2
Debt maturities	18	3	10	--	1	--
Total Avista Capital	85	83	115	67	29	24
Total Company	\$201	\$383	\$270	\$412	\$212	\$322
Funding of Avista Capital(5)	42	40	114	75	22	2

- (1) Capital expenditures exclude AFUDC and AFUCE.
- (2) Excludes short-term borrowings and notes payable (due within one year).
- (3) Represents Avista Capital's portion of projected joint projects. Some projected capital expenditures may depend on the availability of additional funding from other outside sources.
- (4) The 2000 capital expenditures by Avista Capital includes funding of Coyote Springs 2, which will be transferred to Avista Utilities.
- (5) Funding of Avista Capital by Avista Corp. includes both equity investments and notes payable.

The Company's total common equity increased \$330.7 million to \$724.2 million at the end of 2000. The increase was primarily due to the conversion of convertible preferred stock into common stock and the earnings recorded by Avista Energy. The Company's consolidated capital structure at December 31, 2000, was 44% debt, 9% preferred securities (including the Preferred Trust Securities) and 47% common equity as compared to 47% debt, 27% preferred securities (including the Preferred Trust Securities) and 26% common equity at year-end 1999. Had the convertible preferred stock been converted into common stock, the Company's consolidated capital structure at December 31, 1999, would have been 47% debt, 10% preferred securities (including the Preferred Trust Securities) and 43% common equity.

ADDITIONAL FINANCIAL DATA

At December 31, 2000, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately \$679.8 million. Of such amount, \$473.8 million represents long-term unsecured and unsubordinated indebtedness of the Company, and \$203.5 million represents secured indebtedness of the Company. The balance of \$2.5 million represents indebtedness of subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities. An additional \$163.2 million of the Company's short-term debt outstanding under or backed by the committed lines of credit is secured.

FUTURE OUTLOOK

Business Strategy

Avista Utilities seeks to maintain a strong, low-cost utility business focused on delivering efficient, reliable and high quality service to its customers. The utility business is expected to grow modestly, consistent with historical trends. Expansion will primarily result from economic growth in its service territory. Avista Energy scaled back operations to the WSCC during 2000, and will continue to focus on reducing the size and the risk associated with its energy trading and marketing activities. Avista Energy's marketing efforts are expected to be driven by its base of knowledge and experience in the operation of both electric energy and natural gas physical systems in the region, as well as its relationship-focused approach to its customers. Avista Power will continue to pursue opportunities to develop new generation to support the growing power requirements in the Northwest. The Company also intends to focus on its investments in the Information and Technology subsidiaries as part of its overall plans for generating shareholder value, which could include finding equity partners to assist in financing the continued growth of the businesses.

Competition

Avista Utilities competes to provide service to new retail electric customers with various rural electric cooperatives and public utility districts in and adjacent to its service territories. Alternate sources of power may compete for sales to existing Avista Utilities customers, including new market entrants as a result of deregulation. Competition for available electric resources has become more critical to utilities as surplus power resources have been absorbed by load growth. Avista Utilities' natural gas distribution operations compete with other energy sources but natural gas continues to maintain a price advantage compared to heating oil, propane and other fuels, provided that the natural gas distribution system is proximate to prospective customers.

The Avista Capital subsidiaries, particularly the Information and Technology companies, are subject to competition as they develop products and services and enter new markets. Competition from other companies in these emerging industries may mean challenges for a company to be the first to market a new product or service to gain the advantage in market share. In order for these new businesses to grow as planned, one significant challenge will be the availability of funding and resources to meet the capital needs. Other challenges will be rapidly advancing technologies, possibly making some of the current technology quickly obsolete, and requiring continual research and development for product advancement. In order for some of these subsidiaries to succeed, they will need to reduce costs of these emerging technologies to make them affordable to future customers.

Business Risk

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding.

Challenges facing Avista Utilities' electric operations include, among other things, changes in the availability of and volatility in the prices of power and fuel, generating unit availability, legislative and governmental regulations, weather conditions, and the ability to recover increased costs of purchased power. Avista Utilities believes it faces minimal risk for stranded utility assets resulting from deregulation due to its low-cost generation portfolio and because of the slower and more cautious approach to regulatory changes that have been under consideration in Washington and Idaho. In a deregulated environment, however, evolving technologies that provide alternate energy supplies could affect the market price of power, and certain generating assets could have capital and operating costs above the adjusted market price.

In addition, the energy trading and marketing business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

Natural gas commodity prices increased dramatically during 2000. However, market prices for natural gas continue to be competitive compared to alternative fuel sources for residential, commercial and industrial customers. Proven reserves and future natural gas development opportunities lead the Company to believe that natural gas should sustain its market advantage. Significant growth has occurred in the natural gas business in recent years due to increased demand for natural gas in new construction. Challenges facing Avista Utilities' natural gas operations include, among other things, volatility in the price of natural gas, changes in the availability of natural gas, legislative and governmental regulations, weather conditions, conservation and the timing for recovery of increased commodity supply costs. Avista Utilities' natural gas business also faces the potential for large natural gas customers to by-pass its natural gas system. To reduce the potential for such by-pass, Avista Utilities prices its natural gas services, including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of individual contracts. Avista Utilities has long-term transportation contracts with seven of

its largest industrial customers, which reduces the risks of these customers by-passing the system in the foreseeable future.

Commodity Price Risk. Both Avista Utilities and Avista Energy are subject to commodity price risk. Historically, the price of power in wholesale markets has been affected primarily by production costs and by other factors including streamflows, the availability of hydro and thermal generation and transmission capacity, weather and the resulting retail loads, and the price of coal, natural gas and oil to thermal generating units. Any combination of these factors that resulted in a shortage of energy generally caused the market price of power to move upward. Now, however, market prices appear to be affected by other factors as well. These factors include the gradual elimination of excess generating capacity in the WSCC and the effects of the restructuring of the electric utility business at the state and federal levels and the deregulation of wholesale energy markets.

Price risk is, in general, the risk of fluctuation in the market price of the commodity needed, held or traded. In the case of electricity, price movements are correlated to adequacy of generating reserve margins, scheduled and unscheduled outages of generating facilities, availability of streamflows for hydroelectric production, the price of thermal generating plant fuel, and disruptions or constraints to transmission facilities. Demand changes (caused by variations in the weather and other factors) are also correlated to price movements. Price risk also includes the risk of fluctuation in the market price of associated derivative commodity instruments (such as options and forward contracts). Price risk may also be influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity. As discussed earlier, market prices for power and natural gas in the Western U.S. and Western Canada were significantly higher in 2000 than at any time in history, with unprecedented levels of volatility. The extreme price volatility experienced in 2000 suggests that other factors, including unexplained influences, also affect market prices.

Credit Risk. Credit risk relates to the risk of loss that Avista Utilities and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy and make financial settlements. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. Avista Utilities and Avista Energy seek to mitigate credit risk by applying specific eligibility criteria to existing and prospective counterparties and by actively monitoring current credit exposures. However, despite mitigation efforts, defaults by counterparties occur from time to time. Avista Energy has experienced payment receipt defaults from certain parties impacted by the California energy crisis and ultimate collection is not known at this time. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Significant Changes in Energy Markets: California Energy Crisis and Note 4 of Notes to Financial Statements for more information about credit reserves.

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

Other Operating Risks. In addition to commodity price risk, Avista Utilities' commodity positions are also subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality specifications and forced outages at generating plants. Some of these factors have been addressed in the recent changes to the Washington deferred power accounting adjustment and the Idaho PCA.

Interest Rate Risk. The Company is subject to the risk of fluctuating interest rates in the normal course of business. The fair value of the Company's cash and short-term investment portfolio and the fair value of notes payable at December 31, 2000 approximated carrying value. Given the short-term nature of these instruments, market risk, as measured by the change in fair value resulting from a hypothetical change in interest rates, is immaterial.

The Company manages interest rate risk by taking advantage of market conditions when timing the issuance of long-term financings and optional debt redemptions and through the use of fixed rate long-term debt with varying maturities. A portion of the Company's capitalization consists of floating rate Pollution Control Bonds, of which the interest rate resets periodically, and Company-Obligated Mandatorily Redeemable Preferred Trust Securities, of which the interest portion of the \$40 million Series B resets on a quarterly basis, both reflecting current market

conditions. As of December 31, 2000, a hypothetical 15% change in interest rates would result in an immaterial change in the Company's cash flows related to the increased interest expense associated with these floating rate securities.

Foreign Currency Risk. The Company has investments in several Canadian companies through Avista Energy Canada, Ltd. and its acquisition of Coast Pacific Management, Inc. (see Note 23 for additional information about this acquisition). The Company's exposure to foreign currency risk and other foreign operations risk was immaterial to the Company's consolidated results of operations and financial position in 2000 and is not expected to change materially in the near future.

Risk Management

Risk Policies and Oversight. Avista Utilities and Avista Energy use a variety of techniques to manage risks. The Company has established risk management oversight for these risks for each area of the Company's energy-related business. The Company has established a Risk Management Committee composed of senior management separate from the units that create such risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies. Avista Utilities and Avista Energy have adopted policies and procedures to manage the risks, both quantitative and qualitative, inherent in their businesses. The Company's Risk Management Committee reviews the status of risk exposures through regular reports and monitors compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in commodity prices, generating capacity, customer loads, and other factors may result in losses in earnings, cash flow and/or fair values.

Avista Utilities hired Williams Energy Marketing & Trading Company in July 2000 to advise on risk management, risk analysis and power resource optimization issues for all system requirements. The work was completed and the contract ended in the fourth quarter of 2000.

Quantitative Risk Measurements. Avista Utilities has established volume limits for its imbalance between projected loads and resources. Normal operations result in seasonal mismatches between power loads and available resources. Avista Utilities uses the wholesale power markets to sell projected resource surpluses and obtain resources when deficits are projected in the 24-month forward planning horizon. Any imbalance is required to remain within limits, or management action or decisions are triggered to address larger imbalance situations. Volume limits for forward periods are based on monthly and quarterly averages, which may vary materially from the actual load and resource variations within any given month or operating day. Future projections of resources are updated as forecasted streamflows and other factors differ from prior estimates. Forward power markets may be illiquid, and market products may only be available to approximate Avista Utilities' desired transaction size and shape. Therefore, open imbalance positions exist at any given time. During 2000, as market prices and volatility rose to unprecedented levels, the Risk Management Committee decreased the size of Avista Utilities' forward power imbalance limits.

Avista Energy measures the risk in its power and natural gas portfolio daily utilizing a Value-at-Risk (VAR) model and monitors its risk in comparison to established thresholds. VAR measures the worst expected loss over a given time interval under normal market conditions at a given confidence level. Avista Energy also measures its open positions in terms of volumes at each delivery location for each forward time period. The extent of open positions is included in the risk management policy and is measured with stress tests and VAR modeling. The Risk Management Committee adopted a revised Avista Energy risk policy in early 2000 to reflect the change in focus from a national operation to the Western energy markets. The revised risk policy also reduced targeted levels of risk compared to the prior policy.

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

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

At December 31, 2000, Avista Energy's estimated potential one-day unfavorable impact on gross margin was \$4.0 million, as measured by VAR, related to its commodity trading and marketing business, compared to \$1.1 million at December 31, 1999. The average daily VAR for 2000 was \$1.6 million, compared to \$3.7 million in 1999, primarily due to Avista Energy's restructuring. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits. Market risks associated with derivative commodity instruments held for purposes other than trading were not material at December 31, 2000.

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

Economic and Load Growth

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

Avista Utilities anticipates residential and commercial electric load growth to average approximately 2.6% annually for the next five years, primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady. A Public Utility Regulatory Policies Act of 1978 (PURPA) contract with Avista Utilities' largest customer expires in 2002. The customer is expected to self-generate at that time, which will reduce the load to this customer by the amount Avista Utilities has been purchasing and then reselling to them.

Avista Utilities anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.7% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.4% growth annually during that same period. The anticipated 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 territory.

The forward-looking projections set forth above regarding retail sales growth are based, in part, upon purchased economic forecasts and publicly available population and demographic studies. The expectations regarding retail sales growth are also based upon various assumptions including, without limitation, assumptions relating to weather and economic and competitive conditions, internal analysis of company-specific data, such as energy consumption patterns and internal business plans, and an assumption that Avista Utilities will incur no material loss of retail customers due to self-generation or retail wheeling. Changes in the underlying assumptions can cause actual experience to vary significantly from forward-looking projections.

Environmental Issues

Since December 1991, a number of species of fish in the Northwest, including the Snake River sockeye salmon and fall chinook salmon, the Kootenai River white sturgeon, the upper Columbia River steelhead, the upper Columbia River spring chinook salmon and the bull trout have been listed as threatened or endangered under the Federal Endangered Species Act (ESA). Thus far, measures which have been adopted and implemented to save the Snake River sockeye salmon and fall chinook salmon have not directly impacted generation levels at any of Avista Utilities' hydroelectric dams. Avista Utilities does, however, purchase power from four projects on the Columbia River that are being directly impacted by ongoing mitigation measures for salmon and steelhead. The reduction in generation at these projects is relatively minor, resulting in minimal economic impact on Avista Utilities at this time. It is currently not possible to accurately predict the likely economic costs to the Company resulting from all future actions.

The Company received a new FERC operating license for the Cabinet Gorge and Noxon Rapids hydroelectric projects on February 23, 2000 that incorporates a comprehensive settlement agreement reached with 27 signatories. The restoration of native salmonid fish, in particular bull trout, is a principal focus of the agreement. Bull trout are native to this area and were listed as "threatened" in 1998 under the ESA. A collaborative bull trout recovery program with the U.S. Fish and Wildlife Service, Native American tribes and the states of Idaho and Montana is underway on the lower Clark Fork River. The new FERC license establishes a plan for bull trout restoration, including annual budget estimates.

The Company continues to study the issue of high dissolved gas levels downstream of Cabinet Gorge during spill periods, as agreed to in the Settlement Agreement for relicensing of Cabinet Gorge. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. Under the terms of the Settlement Agreement, the Company will develop an abatement and/or mitigation strategy in 2002.

See Note 22 of Notes to Financial Statements for additional information.

Lake Coeur d'Alene Decision

On July 28, 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d'Alene Tribe of Idaho owns portions of the bed and banks of Lake Coeur d'Alene and the St. Joe River lying within the current boundaries of the Coeur d'Alene Reservation. The disputed bed and banks comprise approximately the southern one-third of Lake Coeur d'Alene. This action had been brought by the United States on behalf of the Tribe against the State of Idaho. While the Company is not a party to this action, which has been appealed by the State of Idaho to the Ninth Circuit Court of Appeals, the Company is continuing to evaluate the potential impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of Lake Coeur d'Alene. The State of Idaho filed a petition for writ of certiorari with the United States Supreme Court, which petition was granted. The Company expects that the matter will be heard and decided by July 2001.

Other

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

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

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

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

Avista Utilities' Operations --

In addition to other factors and matters discussed elsewhere herein, some important factors that could cause actual results or outcomes for Avista Utilities' operations to differ materially from those discussed in forward-looking

statements include prevailing legislative developments, governmental policies and regulatory actions with respect to allowed rates of return, financings, or industry and rate structures, weather conditions, wholesale and retail competition (including but not limited to electric retail wheeling and transmission cost), availability of economic supplies of natural gas, present or prospective natural gas distribution or transmission competition (including but not limited to prices of alternative fuels and system deliverability costs), recovery of purchased power and purchased gas costs, present or prospective generation, operations and construction of plant facilities, and acquisition and disposal of assets or facilities.

Energy Trading and Marketing Operations --

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

Information, Technology, and Avista Ventures' Operations --

Certain additional important factors which could cause actual results or outcomes for the remaining subsidiaries' operations to differ materially from those discussed in forward-looking statements include competition from other companies and other technologies, obsolescence of technologies, the ability or inability to reduce costs of the technologies down to economic levels, the ability to obtain new customers and retain old ones, reliability of customer orders, business acquisitions, disposal of assets, the availability of funding from other sources, research and development findings and the availability of economic expansion or development opportunities.

Factors Common to All Operations --

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

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook: Business Risk and Risk Management."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

INDEPENDENT AUDITORS' REPORT

Avista Corporation
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows, which include the schedule of information by business segments, for each of the three years in the period ended December 31, 2000. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Seattle, Washington
February 2, 2001
(February 26, 2001, as to Note 22)

CONSOLIDATED STATEMENTS OF INCOME
Avista Corporation

For the Years Ended December 31
Thousands of Dollars

	2000	1999	1998
	-----	-----	-----
OPERATING REVENUES	\$ 7,911,490	\$ 7,904,984	\$ 3,683,984
	-----	-----	-----
OPERATING EXPENSES:			
Resource costs	7,320,261	7,417,940	3,021,046
Operations and maintenance	108,092	155,176	229,620
Administrative and general	139,355	127,958	129,771
Depreciation and amortization	75,941	76,474	70,547
Taxes other than income taxes	54,608	53,157	60,180
Asset impairment and restructuring charges	9,805	42,922	--
	-----	-----	-----
Total operating expenses	7,708,062	7,873,627	3,511,164
	-----	-----	-----
INCOME FROM OPERATIONS	203,428	31,357	172,820
	-----	-----	-----
OTHER INCOME (EXPENSE):			
Interest expense	(68,723)	(65,076)	(69,077)
Net gain on subsidiary transactions	770	57,531	7,937
Other income (deductions)-net	29,665	18,959	9,794
	-----	-----	-----
Total other income (expense)-net	(38,288)	11,414	(51,346)
	-----	-----	-----
INCOME BEFORE INCOME TAXES	165,140	42,771	121,474
INCOME TAXES	73,461	16,740	43,335
	-----	-----	-----
NET INCOME	91,679	26,031	78,139
DEDUCT-Preferred stock dividend requirements	23,735	21,392	8,399
	-----	-----	-----
INCOME AVAILABLE FOR COMMON STOCK	\$ 67,944	\$ 4,639	\$ 69,740
	=====	=====	=====
Average common shares outstanding, basic (thousands)	45,690	38,213	54,604
EARNINGS PER SHARE OF COMMON STOCK, BASIC	\$ 1.49	\$ 0.12	\$ 1.28
EARNINGS PER SHARE OF COMMON STOCK, DILUTED (Note 19)	\$ 1.47	\$ 0.12	\$ 1.28
Dividends paid per common share	\$ 0.48	\$ 0.48	\$ 1.05

CONSOLIDATED BALANCE SHEETS
Avista Corporation

At December 31
Thousands of Dollars

	2000	1999
	-----	-----
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 194,365	\$ 40,041
Temporary cash investments	1,058	9,277
Accounts and notes receivable-net	861,308	530,774
Energy commodity assets	7,956,229	585,913
Materials and supplies, fuel stock and natural gas stored	24,496	28,352
Prepayments and other	54,244	21,499
	-----	-----
Total current assets	9,091,700	1,215,856
	-----	-----
UTILITY PROPERTY:		
Utility plant in service-net	2,205,230	2,184,698
Construction work in progress	33,535	30,912
	-----	-----
Total	2,238,765	2,215,610
Less: Accumulated depreciation and amortization	720,453	714,773
	-----	-----
Net utility plant	1,518,312	1,500,837
	-----	-----
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	46,981	54,123
Non-utility properties and investments-net	219,450	135,426
Energy commodity assets	1,367,107	491,799
Other-net	21,885	31,051
	-----	-----
Total other property and investments	1,655,423	712,399
	-----	-----
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	156,692	166,456
Conservation programs	18,528	44,444
Unamortized debt expense	27,874	31,122
Other-net	95,395	42,380
	-----	-----
Total deferred charges	298,489	284,402
	-----	-----
TOTAL	\$ 12,563,924	\$ 3,713,494
	=====	=====
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	\$ 892,545	\$ 522,478
Energy commodity liabilities	7,834,007	594,065
Current portion of long-term debt	89,000	--
Short-term borrowings	163,160	--
Taxes and interest accrued	1,971	35,123
Other	144,524	35,313
	-----	-----
Total current liabilities	9,125,207	1,186,979
	-----	-----
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	38,975	47,366
Deferred revenue	46,498	132,975
Energy commodity liabilities	1,272,374	441,372
Deferred income taxes	446,310	377,049
Other deferred credits	95,530	11,041
	-----	-----
Total non-current liabilities and deferred credits	1,899,687	1,009,803
	-----	-----
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,539,030	1,516,712
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 10, 13 and 22)		
TOTAL	\$ 12,563,924	\$ 3,713,494
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
Avista Corporation

At December 31
Thousands of Dollars

	2000	1999
	-----	-----
LONG-TERM DEBT:		
First Mortgage Bonds:		
Secured Medium-Term Notes:		
Series A - 625% to 790% due 2002 through 2023	\$ 129,500	\$ 139,400
Series B - 650% to 789% due 2001 through 2010	74,000	124,000
	-----	-----
Total first mortgage bonds	203,500	263,400
	-----	-----
Pollution Control Bonds:		
Floating Rate, Colstrip 1999A, due 2032	66,700	66,700
Floating Rate, Colstrip 1999B, due 2034	17,000	17,000
6% Series due 2023	4,100	4,100
	-----	-----
Total pollution control bonds	87,800	87,800
	-----	-----
Unsecured Medium-Term Notes:		
Series A - 794% to 957% due 2001 through 2007	13,000	31,000
Series B - 675% to 823% due 2001 through 2023	89,000	96,000
Series C - 599% to 802% due 2007 through 2028	109,000	109,000
Series D - 800% to 8625% due 2001 through 2003	175,000	--
	-----	-----
Total unsecured medium-term notes	386,000	236,000
	-----	-----
Notes payable (due within one year) to be refinanced	--	118,500
Other	2,506	9,204
	-----	-----
Total long-term debt	679,806	714,904
	-----	-----
COMPANY-OBLIGATED MANDATORILY REDEEMABLE		
PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	40,000	50,000
	-----	-----
Total company-obligated mandatorily redeemable preferred trust securities	100,000	110,000
	-----	-----
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
\$695 Series K; 350,000 shares outstanding (\$100 stated value)	35,000	35,000
	-----	-----
Total subject to mandatory redemption	35,000	35,000
	-----	-----
CONVERTIBLE PREFERRED STOCK:		
Not subject to mandatory redemption:		
\$1240 Convertible Series L; 0 and 1,508,210 shares outstanding (\$18280 stated value)	--	263,309
	-----	-----
Total convertible preferred stock	--	263,309
	-----	-----
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized;		
47,208,689 and 35,648,239 shares outstanding	610,741	318,731
Note receivable from employee stock ownership plan	(7,040)	(8,240)
Capital stock expense and other paid in capital	(11,696)	(4,347)
Other comprehensive income	(723)	(166)
Retained earnings	132,942	87,521
	-----	-----
Total common equity	724,224	393,499
	-----	-----
TOTAL CAPITALIZATION	\$ 1,539,030	\$ 1,516,712
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

For the Years Ended December 31
 Thousands of Dollars

	2000	1999	1998
OPERATING ACTIVITIES:			
Net income	\$ 91,679	\$ 26,031	\$ 78,139
NON-CASH ITEMS INCLUDED IN NET INCOME:			
Depreciation and amortization	75,941	76,474	70,547
Provision for deferred income taxes	79,274	(1,085)	10,402
Allowance for equity funds used during construction	(604)	(1,040)	(1,283)
Power and natural gas cost deferrals and amortizations	(67,299)	(14,906)	(3,512)
Gain on sale of property and subsidiary investments-net	(16,506)	(57,860)	(8,084)
Energy commodity assets and liabilities	(172,918)	(9,841)	(23,563)
Impairment of assets	--	33,622	--
Other-net	13,954	(31,821)	25,334
(Increase) decrease in working capital components:			
Sale of customer accounts receivable-net	35,000	20,000	(15,000)
Receivables and prepaid expense	(377,285)	(140,348)	(246,873)
Materials & supplies, fuel stock and natural gas stored	3,857	497	9,524
Payables and other accrued liabilities	446,184	164,908	246,208
Other	(35,081)	46,545	(17,336)
Monetization of contract	--	--	143,400
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	76,196	111,176	267,903
INVESTING ACTIVITIES:			
Construction expenditures (excluding AFUDC-equity funds)	(98,680)	(87,160)	(92,942)
Other capital requirements	(100,661)	(29,451)	(14,920)
(Increase) decrease in other noncurrent balance sheet items-net	3,470	(7,712)	27,266
Proceeds from property sales and sale of subsidiary investments	105,228	148,851	16,385
Assets acquired and investments in subsidiaries	(6,223)	(51,729)	(52,780)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(96,866)	(27,201)	(116,991)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	42,126	110,522	(108,500)
Redemption of preferred trust securities	(10,000)	--	--
Proceeds from issuance of long-term debt	224,000	116,516	84,000
Redemption and maturity of long-term debt	(54,603)	(211,514)	(14,000)
Redemption of preferred stock	--	(5,918)	(10,000)
Sale (repurchase) of common stock	2,625	(81,985)	(1,475)
Cash dividends paid	(28,304)	(39,757)	(64,548)
Other-net	(850)	(4,634)	5,854
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	174,994	(116,770)	(108,669)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	154,324	(32,795)	42,243
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	40,041	72,836	30,593
CASH & CASH EQUIVALENTS AT END OF PERIOD	\$ 194,365	\$ 40,041	\$ 72,836
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period:			
Interest	\$ 61,774	\$ 63,207	\$ 64,402
Income taxes	31,404	42,891	40,716
Noncash financing and investing activities:			
Series L preferred stock converted to common stock	271,286	--	--
Property purchased under capitalized leases	--	2,557	1,209
Net unrealized holding gains (losses)	(475)	201	(2,052)
Notes receivable for sale of investment	3,500	--	--
Common stock and retained earnings transfer to preferred stock	--	--	276,821

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Avista Corporation

For the Years Ended December 31
Thousands of Dollars

	Preferred Stock Series K		Convertible Preferred Stock Series L		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at December 31, 1997	350,000	\$35,000	--	\$ --	55,960,360	\$ 594,852
Net income						
Conversion of common stock to convertible preferred stock			1,540,460	269,227	(15,404,595)	(211,201)
Stock issued under compensatory plans					(102,036)	(2,250)
Repayments of note receivable						
Foreign currency translation adjustment						
Unrealized investment loss-net						
Cash dividends paid (common stock)						
Cash dividends paid (preferred stock)						
ESOP dividend tax savings						
Balance at December 31, 1998	350,000	\$35,000	1,540,460	\$ 269,227	40,453,729	\$ 381,401
Net income						
Repurchase of common stock and common stock equivalents			(32,250)	(5,918)	(4,788,900)	(62,393)
Stock issued under compensatory plans					(16,590)	(277)
Repayments of note receivable						
Foreign currency translation adjustment						
Unrealized investment loss-net						
Cash dividends paid (common stock)						
Cash dividends paid (preferred stock)						
ESOP dividend tax savings						
Balance at December 31, 1999	350,000	\$35,000	1,508,210	\$ 263,309	35,648,239	\$ 318,731
Net income						
Conversion of convertible preferred stock into common stock			(1,508,210)	(263,309)	11,410,047	289,118
Repurchase of common stock					(45,975)	(1,488)
Stock issued under compensatory plans net of tax benefit of \$359					70,742	1,192
Employee Investment Plan (401-K)					97,478	2,614
Dividend Reinvestment Plan					28,158	574
Repayments of note receivable						
Foreign currency translation adjustment						
Unrealized investment loss-net						
Cash dividends paid (common stock)						
Cash dividends paid (preferred stock)						
ESOP dividend tax savings						
Balance at December 31, 2000	350,000	\$35,000	--	\$ --	47,208,689	\$ 610,741

	Note Receivable from Employee Stock Ownership Plan	Capital Stock Expense and Other Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at December 31, 1997	\$ (9,750)	\$ (10,143)	\$ 2,077	\$ 171,776	\$ 783,812
Net income				78,139	78,139
Conversion of common stock to convertible preferred stock		5,967		(64,844)	(851)
Stock issued under compensatory plans				(419)	(2,669)
Repayments of note receivable	455				455
Foreign currency translation adjustment			(366)		(366)
Unrealized investment loss-net			(2,052)		(2,052)
Cash dividends paid (common stock)				(56,898)	(56,898)
Cash dividends paid (preferred stock)				(7,639)	(7,639)
ESOP dividend tax savings				330	330
Balance at December 31, 1998	\$ (9,295)	\$ (4,176)	\$ (341)	\$ 120,445	\$ 792,261
Net income				26,031	26,031
Repurchase of common stock and common stock equivalents		(171)		(19,315)	(87,797)
Stock issued under compensatory plans				(84)	(361)
Repayments of note receivable	1,055				1,055
Foreign currency translation adjustment			376		376
Unrealized investment loss-net			(201)		(201)
Cash dividends paid (common stock)				(18,301)	(18,301)
Cash dividends paid (preferred stock)				(21,402)	(21,402)

				147	147
ESOP dividend tax savings					
Balance at December 31, 1999	\$ (8,240)	\$ (4,347)	\$ (166)	\$ 87,521	\$ 691,808
Net income				91,679	91,679
Conversion of convertible preferred stock into common stock		(8,009)		(17,868)	(68)
Repurchase of common stock				(419)	(1,907)
Stock issued under compensatory plans net of tax benefit of \$359		689		101	1,982
Employee Investment Plan (401-K)		(29)			2,585
Dividend Reinvestment Plan					574
Repayments of note receivable	1,200				1,200
Foreign currency translation adjustment			(82)		(82)
Unrealized investment loss-net			(475)		(475)
Cash dividends paid (common stock)				(22,616)	(22,616)
Cash dividends paid (preferred stock)				(5,600)	(5,600)
ESOP dividend tax savings				144	144
Balance at December 31, 2000	\$ (7,040)	\$ (11,696)	\$ (723)	\$ 132,942	\$ 759,224
	--	--	--	--	--

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS

Avista Corporation

For the Years Ended December 31

Thousands of Dollars

	2000	1999	1998
OPERATING REVENUES:			
Avista Utilities	\$ 1,512,101	\$ 1,115,647	\$ 1,049,212
Energy Trading and Marketing	6,531,551	6,695,671	2,408,734
Information and Technology	11,645	4,851	1,995
Avista Ventures	32,937	122,303	231,483
Intersegment eliminations	(176,744)	(33,488)	(7,440)
	-----	-----	-----
Total operating revenues	\$ 7,911,490	\$ 7,904,984	\$ 3,683,984
	=====	=====	=====
RESOURCE COSTS:			
Avista Utilities:			
Power purchased	\$ 1,072,475	\$ 543,436	\$ 470,604
Natural gas purchased for resale	141,700	101,958	109,182
Fuel for generation	69,077	46,368	44,281
Other	(10,052)	46,053	44,309
Energy Trading and Marketing:			
Cost of sales	6,223,805	6,713,613	2,360,110
Intersegment eliminations	(176,744)	(33,488)	(7,440)
	-----	-----	-----
Total resource costs (excluding non-energy businesses) ..	\$ 7,320,261	\$ 7,417,940	\$ 3,021,046
	=====	=====	=====
GROSS MARGINS:			
Avista Utilities	\$ 238,901	\$ 377,832	\$ 380,836
Energy Trading and Marketing	307,746	(17,942)	48,624
	-----	-----	-----
Total gross margins (excluding non-energy businesses) ...	\$ 546,647	\$ 359,890	\$ 429,460
	=====	=====	=====
OPERATIONS AND MAINTENANCE EXPENSES:			
Avista Utilities	\$ 61,883	\$ 56,291	\$ 60,847
Energy Trading and Marketing	249	370	--
Information and Technology	18,229	7,732	3,902
Avista Ventures	27,731	90,783	164,871
	-----	-----	-----
Total operations and maintenance expenses	\$ 108,092	\$ 155,176	\$ 229,620
	=====	=====	=====
ADMINISTRATIVE AND GENERAL EXPENSES:			
Avista Utilities	\$ 62,111	\$ 66,362	\$ 69,693
Energy Trading and Marketing	41,256	31,732	25,201
Information and Technology	26,772	7,351	2,607
Avista Ventures	9,216	22,513	32,270
	-----	-----	-----
Total administrative and general expenses	\$ 139,355	\$ 127,958	\$ 129,771
	=====	=====	=====
DEPRECIATION AND AMORTIZATION EXPENSES:			
Avista Utilities	\$ 63,972	\$ 62,981	\$ 59,538
Energy Trading and Marketing	2,466	3,692	596
Information and Technology	5,681	2,340	653
Avista Ventures	3,822	7,461	9,760
	-----	-----	-----
Total depreciation and amortization expenses	\$ 75,941	\$ 76,474	\$ 70,547
	=====	=====	=====
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):			
Avista Utilities	\$ 3,177	\$ 142,567	\$ 143,153
Energy Trading and Marketing	250,196	(97,785)	22,826
Information and Technology	(40,084)	(13,002)	(5,192)
Avista Ventures	(9,861)	(423)	12,033
	-----	-----	-----
Total income from operations	\$ 203,428	\$ 31,357	\$ 172,820
	=====	=====	=====

	2000	1999	1998
	-----	-----	-----
INCOME AVAILABLE FOR COMMON STOCK:			
Avista Utilities	\$ (62,516)	\$ 38,181	\$ 47,898
Energy Trading and Marketing	161,753	(60,739)	14,116
Information and Technology	(28,408)	(8,620)	(3,398)
Avista Ventures	(2,885)	35,817	11,124
	-----	-----	-----
Total income available for common stock	\$ 67,944	\$ 4,639	\$ 69,740
	=====	=====	=====
ASSETS:			
Avista Utilities	\$ 2,129,614	\$ 1,976,716	\$ 2,004,935
Energy Trading and Marketing	10,271,834	1,595,470	955,615
Information and Technology	59,632	26,379	7,461
Avista Ventures	102,844	114,929	285,625
	-----	-----	-----
Total assets	\$ 12,563,924	\$ 3,713,494	\$ 3,253,636
	=====	=====	=====
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):			
Avista Utilities	\$ 99,807	\$ 86,256	\$ 92,295
Energy Trading and Marketing	65,095	3,676	2,357
Information and Technology	35,555	15,506	4,120
Avista Ventures	976	10,171	7,498
	-----	-----	-----
Total capital expenditures	\$ 201,433	\$ 115,609	\$ 106,270
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

AVISTA CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Avista Corporation (Avista Corp. or the Company) operates as an energy, information and technology company with a regional utility operation and subsidiary operations located in the Pacific Northwest. The utility portion of the Company, doing business as Avista Utilities, is subject to state and federal price regulation. The other businesses are conducted under Avista Capital, which is the parent company to the Company's subsidiaries.

Regulatory, political, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, presenting both opportunities and challenges. The Company's focus is to optimize its businesses and to adapt its operations accordingly.

The Company's operations are exposed to risks, including legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding. In addition, the energy business exposes the Company to the financial, liquidity, credit and commodity price risks associated with wholesale sales and purchases.

BASIS OF REPORTING

The financial statements are presented on a consolidated basis and, as such, include the assets, liabilities, revenues and expenses of the Company and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in the consolidation. The accompanying financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants (See Note 7). The financial activity of each of the Company's lines of business is reported in the "Schedule of Information by Business Segments." Such information is an integral part of these financial statements.

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

SYSTEM OF ACCOUNTS

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

REGULATION

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

BUSINESS SEGMENTS

The business segment presentation reflects the basis currently used by the Company's management to analyze performance and determine the allocation of resources. Avista Utilities' business is managed based on the total regulated operations. The Energy Trading and Marketing line of business has redirected its focus to a Western regional effort, but its operations are non-regulated, as opposed to Avista Utilities' operations. The Information and Technology line of business reflects the Company's newest businesses with operations related to internet billing services, fuel cells and telecommunications. The Avista Ventures line of business reflects the other non-energy operations of various subsidiaries.

OPERATING REVENUES

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

INTERSEGMENT ELIMINATIONS

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

RESEARCH AND DEVELOPMENT EXPENSES

Company-sponsored research and development expenses related to present and future products are expensed as incurred. The majority of the Company's research and development expenses are related to subsidiary businesses. Research and development expenses totaled approximately \$8.1 million, \$3.3 million and \$1.0 million in 2000, 1999 and 1998, respectively.

OTHER INCOME (DEDUCTIONS) -- NET

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

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(Thousands of Dollars)		
Interest income	\$ 11,824	\$ 3,615	\$ 9,560
Capitalized interest (debt)	3,476	1,001	1,592
Gain (loss) on property dispositions ...	20,278	4,071	12
Minority interest	3,148	2,002	296
Capitalized interest (equity)	604	1,040	1,283
Other	(9,665)	7,230	(2,949)
Total	\$ 29,665	\$18,959	\$ 9,794

EARNINGS PER SHARE

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible stock, were exercised or converted into common stock that then shared in the earnings of the Company. See Note 19 for specific information about the Company's EPS calculations.

UTILITY PLANT

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

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

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

The effective AFUDC rate was 10.67% in 2000, 1999 and 1998. The Company's AFUDC rates do not exceed the maximum allowable rates as determined in accordance with the requirements of regulatory authorities.

DEPRECIATION

For utility operations, depreciation provisions are estimated by a method of depreciation accounting utilizing unit rates for hydroelectric plants and composite rates for other properties. Such rates are designed to provide for retirements of properties at the expiration of their service lives. The rates for hydroelectric plants include annuity and interest components, in which the interest component is 9%. For utility operations, the ratio of depreciation provisions to average depreciable property was 2.72% in 2000, 2.69% in 1999 and 2.60% in 1998.

The average service lives and remaining average service lives, respectively, for the following broad categories of utility property are: electric thermal production -- 35 and 16 years; hydroelectric production -- 100 and 78 years; electric transmission -- 60 and 27 years; electric distribution -- 40 and 30 years; and natural gas distribution property -- 44 and 29 years.

CASH AND CASH EQUIVALENTS

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

TEMPORARY INVESTMENTS

Temporary investments consist of marketable equity securities that are classified as "available for sale." At December 31, 2000 and 1999, unrealized investment losses totaled \$0.7 million and \$0.2 million, respectively, net of taxes, and are reflected as a component of other comprehensive income on the consolidated Statements of Capitalization. At December 31, 2000 and 1999, the carrying value of available for sale securities was \$1.1 million and \$9.3 million, respectively.

INVENTORY

Inventory consists primarily of materials and supplies, fuel stock and natural gas stored. Inventory is recorded at the lower of cost or market, primarily using the average cost method.

DEFERRED CHARGES AND CREDITS

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

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

DEFERRED REVENUES

In December 1998, the Company received cash proceeds of \$143.4 million from the monetization of a contract in which the Company assigned and transferred certain rights under a long-term power sales contract to a funding trust. The proceeds were recorded as deferred revenue and are being amortized into revenues over the 16-year period of the long-term sales contract. Pursuant to the WUTC order in late 2000, the Company was directed to offset the Washington jurisdiction's share of the deferred revenue by writing down certain of the Company's assets and liabilities, such as conservation programs and a PURPA contract buyout. The balance at December 31, 2000 was \$40.4 million, which represents the Idaho jurisdiction's share of the deferred revenue.

POWER COST DEFERRALS

On August 9, 2000, the WUTC approved Avista Utilities' request for deferred accounting treatment for certain power costs related to increases in short-term power prices beginning July 1, 2000 and ending June 30, 2001. The specific power costs deferred include the changes in power costs to Avista Utilities from those included in base retail rates, related to three power cost components: the net effect of changes in short-term wholesale market prices on short-term wholesale purchases and sales; the effect on power costs from changes in the level of hydroelectric generation; and the net effect on power costs from changes in the level of thermal generation (including changes in fuel prices). The deferrals each month are calculated as the difference between the actual costs to Avista Utilities

associated with these three power cost components, and the level of costs included in Avista Utilities' base retail rates. The power costs deferred are related solely to the operation of Avista Utilities' system resources to serve its system retail and wholesale load obligations. Deferrals do not include net losses associated with wholesale trading activity incurred in the first half of 2000. During 2000, Avista Utilities deferred a total of \$33.9 million under this accounting order.

On January 24, 2001, the WUTC approved a modification to the deferral mechanism to recover power supply costs associated with meeting increased retail and wholesale system load requirements, effective December 1, 2000. The WUTC also required Avista Utilities to file a proposal by mid-March 2001 that will address the prudence of the incurred power costs, the optimization of its owned resources to the benefit of retail customers, the appropriateness of recovery of power costs through a deferral mechanism, a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs. Avista Utilities also plans to file for an extension of this deferred accounting treatment through 2001.

POWER AND NATURAL GAS COST ADJUSTMENT PROVISIONS

Avista Utilities has a power cost adjustment mechanism (PCA) in Idaho which allows it to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and Public Utility Regulatory Policies Act of 1978 (PURPA) contracts. Rate changes were triggered when the deferred balance reached \$2.2 million. The new trigger is \$3.0 million. The following surcharges and rebates were in effect during 1998 through 2000: a \$2.4 million (2.0%) rebate effective August 1, 2000 scheduled to expire July 31, 2001; a \$2.8 million (2.5%) rebate effective August 1, 1999 which expired July 31, 2000; a \$3.1 million (2.7%) rebate effective February 1, 1999, which expired January 31, 2000; a \$2.7 million (2.4%) rebate effective June 1, 1998, which expired May 31, 1999; a \$2.6 million (2.3%) rebate effective September 1, 1997, which expired August 31, 1998; and a \$2.6 million (2.4%) rebate effective June 1, 1997, which expired May 31, 1998. Avista Utilities has filed for a \$5.7 million (4.8%) surcharge to be effective February 1, 2001 and expire on January 31, 2002. The rebate balances and the deferred balance are included in the Current Liabilities -- Other and Non-Current Liabilities and Deferred Credits -- Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets. The surcharge balance is included on the Consolidated Balance Sheets in Current Assets -- Accounts and Notes Receivable-Net.

On January 16, 2001, Avista Utilities filed an application with the IPUC seeking proposed modifications to the existing PCA mechanism. Due to extremely high short-term power prices, Avista Utilities is requesting to recover power supply costs associated with meeting increased retail and wholesale system load requirements, as well as to recover replacement power costs associated with possible thermal plant forced outages.

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

INCOME TAXES

The Company and its eligible subsidiaries file consolidated federal income tax returns. Subsidiaries are charged or credited with the tax effects of their operations on a stand-alone basis. The Company's federal income tax returns have been examined with all issues resolved, and all payments made, through the 1996 return.

STOCK-BASED COMPENSATION

The Company measures compensation expense for its stock-based employee compensation using the intrinsic value method and provides pro forma disclosures of net income and net earnings per common share as if the fair value method had been applied in measuring compensation expense.

Equity instruments issued to non-employees for good or services are accounted for at fair value and are marked to market until service is complete or a performance commitment date is reached.

OTHER COMPREHENSIVE INCOME

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments and unrealized gains and losses on investments held as available-for-sale investments.

CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT

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

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board (FASB) issued FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires that all derivative financial instruments (including certain derivative instruments embedded in other contracts) be recognized as either assets or liabilities on a company's balance sheet at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. In June 2000, the FASB issued FAS No. 138, which amends certain provisions of FAS No. 133 to clarify certain issues.

Avista Utilities buys and sells power under forward contracts that are considered to be derivatives. Under forward contracts, Avista Utilities commits to purchase or sell a specified amount of capacity and energy. These contracts are generally entered into to manage Avista Utilities' loads and resources. Avista Energy accounts for derivative commodity instruments entered into for trading purposes using the mark-to-market method of accounting, in compliance with EITF 98-10, "Accounting for Energy Trading and Risk Management Activities", with unrealized gains and losses recognized in the income statement.

The Company adopted FAS No. 133, and the corresponding amendments under FAS No. 138, on January 1, 2001. Based on the Company's current interpretations of FAS No. 133, 138 and the FASB's Derivative Implementation Group (DIG), the Company believes that the majority of its long-term purchases and sales contracts for both capacity and energy qualify as normal purchases and sales under FAS No. 133. Some of the Company's contracts for less than one year in duration (short-term) are subject to booking out, whereby power may not be physically delivered. The Company does not believe that these short-term contracts can be classified as normal purchases and sales. The fair value of these specific short-term contracts will be recorded on the Company's balance sheet as of January 1, 2001. The Company received accounting orders from the WUTC and the IPUC requiring the Company to offset any derivative assets or liabilities with a regulatory asset or liability, thus deferring the unrealized gains or losses.

On January 1, 2001, the Company recorded a derivative asset of \$252.3 million and a derivative liability of \$36.1 million. The difference of \$216.2 million has been recorded as a regulatory liability in accordance with the accounting treatment prescribed by the accounting orders from the WUTC and IPUC discussed above.

Because of the complexity of derivatives and FAS No. 133, the FASB established the DIG, as mentioned above. To date, the DIG has issued more than 100 interpretations to provide guidance in applying FAS No. 133. Certain pending issues and other interpretations that may be issued by the DIG may change the conclusions that the Company has reached and, as a result, the accounting treatment and financial statement impact could change in the future.

In September 2000, the FASB issued FAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This statement will be effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The Company does not believe there will be a material financial statement impact resulting from adopting this statement.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," to provide guidance on the recognition, presentation and disclosure of revenues in financial statements. The Company adopted SAB No. 101 in the fourth quarter of 2000. There was no material impact on the Company's Consolidated Statements of Income.

RECLASSIFICATIONS

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

NOTE 2. ASSET IMPAIRMENT AND RESTRUCTURING CHARGES

In November 1999, Avista Energy began to redirect its focus away from national energy trading toward a more regionally-based energy marketing and trading effort in the West. The downsizing plan called for the shutting down

of all of the operations in Houston and Boston and eliminating approximately 80 positions. The Houston operations were closed during the first quarter of 2000, and the Boston operations were closed during the second quarter of 2000. In the fourth quarter of 1999, Avista Energy recorded a charge of \$5.9 million, after taxes, for expenses related to employee terminations. Avista Energy sold its Eastern power book during the first quarter of 2000 for a \$1.0 million after-tax loss, but did not find a buyer for its natural gas or coal contracts in the East. The remaining Eastern natural gas contracts, primarily for transportation and storage, are being managed out of the Spokane office until the last of the contracts expire in 2002. A former employee scheduled the remaining coal contracts until the last of the contracts expired at the end of 2000. In addition to the restructuring charges previously reserved and paid, other transition costs in the amount of \$3.1 million and \$1.8 million, both after taxes, for the first and second quarters of 2000, respectively, were incurred related to closing the Houston and Boston offices and discontinuing operations in the East. Minimal transition costs were recorded in the second half of 2000.

In the 1999 Form 10-K, it was announced that Pentzer would also be redirecting its focus. In the first quarter of 2000, Pentzer recorded a charge of \$1.2 million, after taxes, for expenses related to employee terminations, which was paid during 2000.

NOTE 3. ACCOUNTS RECEIVABLE SALE

In 1997, WWP Receivables Corp. (WWPRC) was incorporated as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Subsequently, WWPRC and the Company have entered into an agreement whereby WWPRC can sell without recourse, on a revolving basis, up to \$80.0 million of those receivables. WWPRC is obligated to pay fees that approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. At December 31, 2000 and 1999, \$80.0 million and \$45.0 million, respectively, in receivables had been sold pursuant to the agreement.

NOTE 4. ENERGY COMMODITY TRADING

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

AVISTA UTILITIES

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

Avista Utilities protects itself against price fluctuations on electric energy by establishing volume limits for the imbalance between projected loads and resources and through the use of derivative commodity instruments for hedging purposes. Any imbalance is required to remain within limits, or management action or decisions are triggered to address larger imbalance situations and limit the exposure to market risk. Avista Energy is responsible for the daily management of gas resources to meet the requirements of Avista Utilities customers. In addition, Avista Utilities utilizes derivative commodity instruments for hedging price risk associated with natural gas. The Risk Management Committee has limited the types of commodity instruments Avista Utilities may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. Commodity instruments are not generally held by Avista Utilities for speculative trading purposes. Gains and losses related to derivative commodity instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased or purchased power expense, as the case may be). At December 31, 2000, the Company had \$1.0 million of derivative commodity instruments outstanding. At December 31, 1999, the Company's derivative commodity instruments outstanding were immaterial.

ENERGY TRADING AND MARKETING

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

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

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

Foreign currency risks associated with the fair value of the energy commodity portfolio are primarily related to Canadian currency exchange rates and are managed using a variety of financial instruments, including forward rate agreements.

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

Contract Amounts and Terms Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity (or currency) or a fixed amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity (or currency) or pay a fixed amount or (iii) as "index price payor," is obligated to pay an indexed price or amount and is entitled to receive the commodity or a variable amount or (iv) as "index price receiver," is entitled to receive an indexed price or amount and is obligated to deliver the commodity or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at December 31, 2000 are set forth below (volumes in thousands of mmBTUs, MWhs and tons, dollars in thousands):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
	-----	-----	-----
Energy commodities (volumes)			
Natural gas	92,329	77,033	9
Electric	142,709	132,962	16
Coal	10	10	1
	Index Price Payor	Index Price Receiver	Maximum Terms in Years
	-----	-----	-----
Energy commodities (volumes)			
Natural gas	674,311	692,794	4
Electric	918	155	4

Market prices are utilized in determining the value of the electric, natural gas and related derivative commodity instruments. For longer-term positions, in addition to market prices, a model based on forward price curves is also utilized.

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

Fair Value The fair value of Avista Energy's derivative commodity instruments outstanding at December 31, 2000, and the average fair value of those instruments held during the year are set forth below (dollars in thousands):

	Fair Value as of December 31, 2000				Average Fair Value for the year ended December 31, 2000			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	\$ 442,655	\$ 125,306	\$ 432,113	\$ 121,342	\$ 189,652	\$ 61,832	\$ 185,421	\$ 56,888
Electric	7,512,658	1,241,801	7,401,791	1,151,032	2,952,962	781,731	2,935,918	714,271
Emission allowances	916	--	103	--	4,322	343	3,617	46
Total	\$ 7,956,229	\$ 1,367,107	\$ 7,834,007	\$ 1,272,374	\$ 3,146,936	\$ 843,906	\$ 3,124,956	\$ 771,205

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of December 31, 2000 was approximately six months. The weighted average term of Avista Energy's electric derivative commodity instruments at December 31, 2000 was approximately six months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk for the year ended December 31, 2000 was \$176.8 million and is included on the Consolidated Statements of Income in operating revenues.

MARKET RISK

Avista Utilities and Avista Energy manage, on a portfolio basis, the market risks inherent in their activities subject to parameters established by the Company's Risk Management Committee. Market risks are monitored by the Risk Management Committee to ensure compliance with the Company's stated risk management policies. Avista Utilities measures exposure to market risk through daily evaluation of the imbalance between projected loads and resources. Avista Energy measures the risk in its portfolio on a daily basis utilizing a value-at risk model and monitors its risk in comparison to established thresholds.

CREDIT RISK

Credit risk relates to the risk of loss that Avista Utilities and/or Avista Energy would incur as a result of non-performance by counterparties of their contractual obligations to deliver energy and make financial settlements. Credit risk includes not only the risk that a counterparty may default due to circumstances relating directly to it, but also the risk that a counterparty may default due to circumstances which relate to other market participants which have a direct or indirect relationship with such counterparty. Avista Utilities and Avista Energy seek to mitigate credit risk by applying specific eligibility criteria to existing and prospective counterparties and by actively monitoring current credit exposures. However, despite mitigation efforts, defaults by counterparties occur from time to time.

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

OTHER OPERATING RISKS

In addition to commodity price risk, Avista Utilities' commodity positions are also subject to operational and event risks including, among others, increases in load demand, transmission or transport disruptions, fuel quality

specifications and forced outages at generating plants. Some of these factors have been addressed in the recent changes to the Washington deferred power accounting adjustment and the Idaho PCA.

NOTE 5. ENERGY TRADING AND MARKETING EQUITY INVESTMENT

Effective November 30, 1998, Avista Energy sold its 50% ownership interest in Howard/Avista Energy LLC to H&H Star Energy, Inc. for \$25 million. Avista Energy's initial equity investment in Howard/Avista Energy, LLC was \$25 million in August 1997. Dividends of \$0.7 million were received from Howard/Avista Energy, LLC in 1998. Avista Energy's pre-tax equity in earnings of Howard/Avista Energy LLC was \$(1.0) million for the eleven months ended November 30, 1998.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	AT DECEMBER 31,	
	2000	1999
Avista Utilities:		
Electric production	\$ 672,070	\$ 720,409
Electric transmission	280,271	272,299
Electric distribution	652,966	622,974
CWIP and other	95,219	85,648
Electric total	1,700,526	1,701,330
Natural gas underground storage	18,687	18,418
Natural gas transmission	2,674	3,194
Natural gas distribution	396,100	372,208
CWIP and other	45,884	49,259
Natural gas total	463,345	443,079
Common plant (including CWIP)	74,894	71,201
Total Avista Utilities	2,238,765	2,215,610
Energy Trading and Marketing	68,544	8,304
Information and Technology	49,242	21,613
Avista Ventures	23,842	24,027
Total	\$2,380,393	\$2,269,554

Property, plant, and equipment under capital leases at Avista Capital's subsidiaries totaled \$12.7 million and \$11.1 million and the associated accumulated depreciation totaled \$6.8 million and \$3.8 million in 2000 and 1999, respectively.

NOTE 7. JOINTLY OWNED ELECTRIC FACILITIES

The Company has an investment in a jointly owned thermal generating plant. The Company provides financing for its ownership in the project. The Company's share of related operating and maintenance expenses for plant in service is included in corresponding accounts in the Consolidated Statements of Income. The following table indicates the Company's percentage ownership and the extent of the Company's investment in the plant at December 31, 2000:

Project	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	COMPANY'S CURRENT SHARE OF		
					Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
(Thousands of Dollars)							
Colstrip 3 & 4.....	1,556,000	Coal	15%	\$311,651	\$140,295	\$171,356	\$ --

NOTE 8. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

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

The Company provides certain health care and life insurance benefits for substantially all of its retired employees. The Company accrues the estimated cost of postretirement benefit payments during the years that employees provide services. The Company elected to amortize this obligation of approximately \$34.5 million over a period of twenty years, beginning in 1993.

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

	PENSION BENEFITS		OTHER BENEFITS	
	2000	1999	2000	1999
	(Thousands of Dollars)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 162,097	\$ 178,589	\$ 30,637	\$ 32,345
Service cost	5,347	5,951	601	696
Interest cost	12,711	11,915	2,407	2,178
Amendments	--	(6,463)	--	--
Actuarial (gain)/loss	7,966	(14,679)	1,580	(2,377)
Benefits paid	(11,860)	(12,109)	(2,427)	(2,205)
Expenses paid	(970)	(1,107)	(37)	--
Benefit obligation at end of year	\$ 175,291	\$ 162,097	\$ 32,761	\$ 30,637
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	\$ 185,564	\$ 178,879	\$ 15,808	\$ 12,459
Actual return on plan assets	(1,005)	19,902	(784)	3,228
Employer contributions	3,304	--	1,182	809
Benefits paid	(11,860)	(12,109)	(973)	(688)
Expenses paid	(970)	(1,107)	(37)	--
Fair value of plan assets at end of year	\$ 175,033	\$ 185,565	\$ 15,196	\$ 15,808
Funded status				
Unrecognized net actuarial gain	\$ (257)	\$ 23,467	\$ (17,566)	\$ (14,829)
Unrecognized prior service cost	(12,595)	(38,667)	(5,960)	(9,997)
Unrecognized net transition obligation/(asset)	10,679	11,651	--	--
	(4,843)	(5,929)	18,399	19,933
Accrued benefit cost	\$ (7,016)	\$ (9,478)	\$ (5,127)	\$ (4,893)
ASSUMPTIONS AS OF DECEMBER 31				
Discount rate	7.75%	6.75%	7.75%	6.75%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	5.00%	4.00%		
Medical cost trend -- initial			5.00%	5.00%
Medical cost trend -- ultimate			6.00%	5.00%
Year for ultimate medical cost trend			2000	1999

	PENSION BENEFITS			OTHER BENEFITS		
	2000	1999	1998	2000	1999	1998
	(Thousands of Dollars)					
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	\$ 5,347	\$ 5,951	\$ 4,982	\$ 600	\$ 696	\$ 585
Interest cost	12,711	11,915	11,247	2,407	2,178	2,100
Expected return on plan assets	(16,243)	(15,681)	(14,768)	(1,372)	(1,075)	(953)
Transition (asset)/obligation recognition	(1,086)	(1,086)	(1,086)	1,534	1,534	1,533
Amortization of prior service cost	971	1,341	1,654	--	--	--
Net gain recognition	(858)	--	(562)	(299)	(159)	(326)
Net periodic benefit cost	\$ 842	\$ 2,440	\$ 1,467	\$ 2,870	\$ 3,174	\$ 2,939

Assumed health cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 2000 by approximately \$2.5 million and the service and interest cost by approximately \$0.2 million. A one-percentage-point decrease in the assumed health care cost trend rate for each year would decrease the accumulated postretirement benefit obligation as of December 31, 2000 by approximately \$2.3 million and the service and interest cost by approximately \$0.2 million.

The Company also sponsors an employee savings plan that covers substantially all employees. Employer matching contributions of \$3.3 million, \$3.4 million, \$2.8 million were expensed in 2000, 1999 and 1998, respectively.

NOTE 9. ACCOUNTING FOR INCOME TAXES

As of December 31, 2000 and 1999, the Company had recorded net regulatory assets of \$156.7 million and \$166.5 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

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

	AT DECEMBER 31,	
	2000	1999
Deferred tax assets:		
Reserves not currently deductible	\$ 31,696	\$ 10,747
Contributions in aid of construction	8,543	7,878
Centralia sale regulatory liability	9,650	--
Centralia Trust	--	2,897
Gain on sale of office building	1,007	1,098
Other	24,360	14,430
Total deferred tax assets	75,256	37,050
Deferred tax liabilities:		
Differences between book and tax bases of utility plant	411,560	383,729
Loss on reacquired debt	4,872	5,357
Energy commodity gains	85,263	16,871
Other	19,871	8,142
Total deferred tax liabilities	521,566	414,099
Net deferred tax liability	\$446,310	\$377,049

A reconciliation of federal income taxes derived from statutory tax rates applied to income from continuing operations and federal income tax as set forth in the accompanying Consolidated Statements of Income and Retained Earnings is as follows:

	FOR THE YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	(Thousands of Dollars)		
Computed federal income taxes at statutory rate	\$ 57,450	\$ 14,970	\$ 42,516
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	4,835	1,869	1,431
Prior year audit adjustments	72	(1,642)	(1,526)
Other	7,392	3,687	(2,343)
Total federal income tax expense*	\$ 69,749	\$ 18,884	\$ 40,078
INCOME TAX EXPENSE CONSISTS OF THE FOLLOWING:			
Federal taxes currently provided	\$ (12,088)	\$ 6,974	\$ 20,094
Deferred income taxes	81,837	11,910	19,984
Total federal income tax expense	69,749	18,884	40,078
State income tax expense	3,712	(2,144)	3,257
Federal and state income taxes	\$ 73,461	\$ 16,740	\$ 43,335
*Federal Income Tax Expense:			
Avista Utilities	\$ (1,789)	\$ 34,757	\$ 28,582
Energy Trading and Marketing	91,353	(32,680)	7,789
Information and Technology	(13,675)	(3,383)	(2,010)
Avista Ventures	(6,140)	20,190	5,717
Total Federal Income Tax Expense	\$ 69,749	\$ 18,884	\$ 40,078
Federal statutory rate	35%	35%	35%

NOTE 10. LONG-TERM PURCHASED POWER CONTRACTS WITH REQUIRED MINIMUM PAYMENTS

Under fixed contracts with Public Utility Districts (PUD), the Company has agreed to purchase portions of the output of certain generating facilities. Although the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations and maintenance expense in the Consolidated Statements of Income. Information as of December 31, 2000, pertaining to these contracts is summarized in the following table:

COMPANY'S CURRENT SHARE OF						
Output	Kilowatt Capability	Annual Costs (1)	Debt Service Costs (2)	Revenue Bonds Outstanding	Contract Expira- tion Date	
(Thousands of Dollars)						
PUD CONTRACTS:						
Chelan County PUD:						
Rocky Reach Project	2.9%	37,000	\$ 1,742	\$ 1,218	\$ 6,196	2011
Grant County PUD:						
Priest Rapids Project ...	6.1	55,000	1,799	936	10,088	2005
Wanapum Project	8.2	75,000	2,917	1,829	14,732	2009
Douglas County PUD:						
Wells Project	3.5	30,000	1,042	591	6,193	2018
Totals		197,000	\$ 7,500	\$ 4,574	\$ 37,209	

- (1) The annual costs will change in proportion to the percentage of output allocated to the Company in a particular year. Amounts represent the operating costs for the year 2000.
 (2) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 2000, 1999 and 1998, were \$7.5 million, \$6.4 million and \$6.2 million, respectively. The estimated aggregate amounts of required minimum payments (the Company's share of debt service costs) under the above contracts for the next five years are \$3.8 million in 2001, \$3.9 million in 2002, \$4.0 million in 2003, \$3.6 million in 2004 and \$3.6 million in 2005 (minimum payments thereafter are dependent on then market conditions). In addition, the Company will be required to pay its proportionate share of the variable operating expenses of these projects.

NOTE 11. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding (excluding subsidiary debt) at December 31, 2000 are as follows:

YEAR ENDING DECEMBER 31	MATURITIES	SINKING FUND REQUIREMENTS	TOTAL
-----	-----	-----	-----
(Thousands of Dollars)			
2001.....	\$ 89,000	\$2,185	\$ 91,185
2002.....	50,000	2,035	52,035
2003.....	205,000	1,635	206,635
2004.....	30,000	1,485	31,485
2005.....	29,500	1,485	30,985

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

In September 1999, \$83.7 million of Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project), Series 1999A due 2032 and Series 1999B due 2034 were issued by the City of Forsyth, Montana. The proceeds of the bonds were utilized to refund the \$66.7 million of 7 1/8% First Mortgage Bonds due 2013 and the \$17.0 million of 7 2/5% First Mortgage Bonds due 2016. The Series 1999A and Series 1999B Bonds are backed by an insurance policy issued by AMBAC Assurance Corporation and bear interest on a floating rate basis that is reset periodically. The interest rate during 2000 ranged from 3.60% to 4.43%. At December 31, 2000, the rate was 4.43%.

In 2000, the Company issued a total of \$224.0 million of Unsecured MTNs, Series D at rates of 8.000% and 8.625% due in 2001 and 2003. A total of \$44.9 million of Secured MTNs matured during 2000, with rates between 6.13% and 8.20%. In 1999, \$25.0 million of Unsecured Medium-Term Notes (MTNs) were issued, while \$98.1 million of Secured MTNs and \$26.5 million of Unsecured MTNs matured or were redeemed. As of December 31, 2000, the Company had remaining authorization to issue up to \$317.0 million of Unsecured MTNs.

At December 31, 2000, the Company had \$163.2 million in outstanding balances under borrowing arrangements and commercial paper. See Note 12 for details of credit agreements.

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

	OUTSTANDING AT DECEMBER 31,	
	2000	1999
	-----	-----
Notes payable	\$ 642	\$ 9,598
Capital lease obligations	2,877	6,457
	-----	-----
Subsidiary total debt	3,519	16,055
Less: current portion	901	6,147
	-----	-----
Subsidiary net long-term debt	\$ 2,618	\$ 9,908
	=====	=====

 AVISTA CORPORATION

NOTE 12. BANK BORROWINGS

At December 31, 2000, the Company maintained lines of credit with various banks under two separate credit agreements. The two lines of credit total \$230 million, and both expire on June 26, 2001. Avista Corp. has pledged its shares of common stock in Avista Capital as security for these agreements. The Company pays commitment fees of up to 0.2% per annum on the average daily unused portion of each credit agreement, and utilization fees of up to 0.5%.

In addition, the Company has a \$50 million regional commercial paper program that is backed by the committed lines of credit. During 2000, under various agreements with banks, the Company could also have up to \$100.0 million in loans outstanding at any one time, with the loans available at the banks' discretion. These arrangements provided, if funds were made available, for fixed-term loans for up to 180 days at a fixed rate of interest. None of these agreements were in place at December 31, 2000.

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

	YEARS ENDED DECEMBER 31,	
	2000	1999

	(Thousands of Dollars)	
BALANCE OUTSTANDING AT END OF PERIOD:		
Fixed-term loans	\$ --	\$ 33,500
Commercial paper	11,160	10,000
Revolving credit agreement	152,000	75,000
MAXIMUM BALANCE DURING PERIOD:		
Fixed-term loans	\$ 80,000	\$ 93,500
Commercial paper	36,900	10,000
Revolving credit agreement	185,000	75,000
AVERAGE DAILY BALANCE DURING PERIOD:		
Fixed-term loans	\$ 19,538	\$ 29,110
Commercial paper	16,833	2,604
Revolving credit agreement	84,255	23,767
AVERAGE ANNUAL INTEREST RATE DURING PERIOD:		
Fixed-term loans	6.70%	5.48%
Commercial paper	6.82	5.89
Revolving credit agreement	7.26	5.87
AVERAGE ANNUAL INTEREST RATE AT END OF PERIOD:		
Fixed-term loans	--%	6.56%
Commercial paper	7.63	6.70
Revolving credit agreement	7.55	6.71

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of \$110 million, decreasing periodically to \$70 million at the end of the agreement, and expiring April 30, 2001. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is \$30 million, with availability of up to \$110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At December 31, 2000 and 1999, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately \$71.5 million and \$75.8 million at December 31, 2000 and 1999, respectively.

NOTE 13. LEASES

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to eleven years and expiration dates from 2001 to 2011. Certain of the lease arrangements require the Company, upon the occurrence of specified events, to purchase the leased assets for varying amounts over the term of the lease. The Company's management believes that the likelihood of the occurrence of the specified events under which the Company could be required to purchase the property is remote. Rent expense for the years ended December 31, 2000, 1999 and 1998 was \$16.2 million, \$18.7 million and \$17.6 million, respectively. Future minimum lease payments (in thousands of dollars) required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2000 are estimated as follows:

Year ending December 31:		
2001		\$ 5,616
2002		5,626
2003		5,496
2004		4,974
2005		3,543
Later years		16,109

Total minimum payments required		\$41,364
		=====

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

The payments under the Avista Capital subsidiaries' capital leases for the next four years are \$1.8 million in 2001, \$1.2 million in 2002, \$0.5 million in 2003 and \$0.2 million in 2004. At December 31, 2000, there were no capital leases at any Avista Capital subsidiaries that extended past 2004.

NOTE 14. PREFERRED STOCK

CUMULATIVE PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION:

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its \$12.40 Convertible Preferred Stock, Series L (Series L Preferred Stock). The Company repurchased the equivalent of 32,250 shares of the Series L Preferred Stock in 1999 and converted all remaining outstanding shares to common stock in February 2000. See Note 15 for additional information.

CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

Redemption requirements:

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

There are \$7.0 million in mandatory redemption requirements during the 2001-2005 period.

NOTE 15. CONVERTIBLE PREFERRED STOCK

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

During 1999, the Company repurchased the equivalent of 32,250 shares of the Series L Preferred Stock. On February 16, 2000, the Company exercised its option to convert all the remaining outstanding shares of Series L Preferred Stock back into common stock. One share of Series L Preferred Stock equaled 10 depository shares, also known as RECONS (Return-Enhanced Convertible Securities). The RECONS were also converted into common stock on the same conversion date.

On the conversion date, each of the RECONS was converted into the following: 0.7205 shares of common stock, representing the optional conversion price; plus 0.0361 shares of common stock, representing the optional conversion premium; plus the right to receive \$0.21 in cash, representing an amount equivalent to accumulated and unpaid dividends up until, but excluding, the conversion date. Cash payments were made in lieu of fractional shares.

NOTE 16. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

In 1997, Avista Capital I, a business trust, issued to the public \$60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of \$61,855,675. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

In 1997, Avista Capital II, a business trust, issued to the public \$50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly. The distribution rate paid during 2000 ranged from 6.976% to 7.715%. At December 31, 2000, the distribution rate was 7.61125%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued \$1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of \$51,547,000. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037. On December 18, 2000, the Company purchased \$10.0 million of these Preferred Trust Securities.

The Company has guaranteed the payment of distributions on, and redemption price and liquidation amount in respect of, the Preferred Trust Securities to the extent that the Trust has funds available for such payment from the debt securities. Upon maturity or prior redemption of such debt securities, the Trust Securities will be mandatorily redeemed. The Company's Consolidated Statements of Capitalization reflect only the \$60 million and \$40 million of Preferred Trust Securities, accordingly all intercompany transactions have been eliminated.

NOTE 17. FAIR VALUE OF FINANCIAL SECURITIES

The fair value of the Company's long-term debt (excluding notes payable and other) at December 31, 2000 and 1999 is estimated to be \$772.5 million, or 101% of the carrying value and \$545.8 million, or 93% of the carrying value, respectively. The fair value of the Company's mandatorily redeemable preferred stock at December 31, 2000 and 1999 is estimated to be \$17.5 million, or 50% of the carrying value and \$35.1 million, or 100% of the carrying value, respectively. The fair value of the Company's preferred trust securities at December 31, 2000 and 1999 is estimated to be \$79.2 million, or 79% of the carrying value and \$94.3 million, or 86% of the carrying value, respectively. These estimates are all based on available market information. The fair value of the Company's convertible preferred securities at December 31, 1999 was estimated to be \$230.0 million, or 87%, of the carrying value. This valuation was based on the closing price of the securities on December 31, 1999. No convertible preferred securities were outstanding at December 31, 2000.

NOTE 18. COMMON STOCK

In April 1990, the Company sold 1,000,000 shares of its common stock to the Trustee of the Investment and Employee Stock Ownership Plan for Employees of the Company (Plan) for the benefit of the participants and beneficiaries of the Plan. In payment for the shares of Common Stock, the Trustee issued a promissory note payable to the Company in the amount of \$14,125,000. Dividends paid on the stock held by the Trustee, plus Company

contributions to the Plan, if any, are used by the Trustee to make interest and principal payments on the promissory note. The balance of the promissory note receivable from the Trustee (\$7.0 million at December 31, 2000) is reflected as a reduction to common equity. The shares of Common Stock are allocated to the accounts of participants in the Plan as the note is repaid. During 2000, the cost recorded for the Plan was \$7.0 million. Interest on the note payable to the Company, cash and stock contributions to the Plan and dividends on the shares held by the Trustee were \$0.7 million, \$1.8 million and \$0.2 million, respectively.

In May 1999, the Company's Board of Directors authorized a common stock repurchase program in which the Company may repurchase in the open market or through privately negotiated transactions up to an aggregate of 10 percent of its common stock and common stock equivalents over the next two years. The repurchased shares return to the status of authorized but unissued shares. As of December 31, 2000, the Company had repurchased approximately 4.8 million common shares and 322,500 shares of Return-Enhanced Convertible Securities (which was equivalent to 32,250 shares of Convertible Preferred Stock, Series L). The combined repurchases of these two securities represent 9% of outstanding common stock and common stock equivalents.

In November 1999, the Company adopted a shareholder rights plan pursuant to which holders of Common Stock outstanding on February 15, 1999, or issued thereafter, have been granted one preferred share purchase right (Right) on each outstanding share of Common Stock. Each Right, initially evidenced by and traded with the shares of Common Stock, entitles the registered holder to purchase one one-hundredth of a share of Preferred Stock of the Company, without par value, at a purchase price of \$70, subject to certain adjustments, regulatory approval and other specified conditions. The Rights will be exercisable only if a person or group acquires 10% or more of the outstanding shares of Common Stock or commences a tender or exchange offer, the consummation of which would result in the beneficial ownership by a person or group of 10% or more of the outstanding shares of Common Stock. Upon any such acquisition, each Right will entitle its holder to purchase, at the purchase price, that number of shares of Common Stock or Preferred Stock of the Company (or, in the case of a merger of the Company into another person or group, common stock of the acquiring person) which has a market value at that time equal to twice the purchase price. In no event will the Rights be exercisable by a person which has acquired 10% or more of the Company's Common Stock. The Rights may be redeemed, at a redemption price of \$0.01 per Right, by the Board of Directors of the Company at any time until any person or group has acquired 10% or more of the Common Stock. The Rights will expire on March 31, 2009. This plan replaced a similar shareholder rights plan that expired in February 2000.

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

In March 2000, the Company began issuing new shares of common stock to the Employee Investment Plan rather than having the Plan purchasing shares of common stock on the open market. In the fourth quarter of 2000, the Company also began issuing new shares of common stock for the Dividend Reinvestment and Stock Purchase Plan. Through December 31, 2000, a total of 125,636 new shares of common stock were issued to both plans.

NOTE 19. EARNINGS PER SHARE

On February 16, 2000, all outstanding shares of Series L Preferred Stock were converted into 11,410,047 shares of common stock. The weighted-average number of shares of common stock outstanding during the twelve months ended December 31, 2000 related to the converted shares was 9,975,997. The costs of converting the Series L Preferred Stock into common stock totaled \$21.3 million during the first quarter of 2000, with \$18.1 million representing the optional conversion premium and \$3.2 million attributable to the regular dividend on the stock. At December 31, 1999 and 1998, 1,508,210 and 1,540,460 shares of \$12.40 Convertible Preferred Stock, Series L, which were convertible into 15,082,100 and 15,404,595 million shares of common stock, respectively, were outstanding. All of these potential common shares and the associated dividends were excluded from the computation of diluted EPS for 1999 and 1998 because their inclusion had an antidilutive effect on EPS.

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

	2000 -----	1999 -----	1998 -----
Net income	\$91,679	\$26,031	\$78,139
Less: Preferred stock dividends	23,735	21,392	8,399
	-----	-----	-----
Income available for common stock-basic and diluted	\$67,944	\$ 4,639	\$69,740
	=====	=====	=====
Weighted-average number of common shares			
outstanding-basic	45,690	38,213	54,604
Restricted stock	101	112	--
Stock options	312	--	54
	-----	-----	-----
Weighted-average number of common shares			
outstanding-diluted	46,103	38,325	54,658
	=====	=====	=====
Earnings per common share			
Basic	\$ 1.49	\$ 0.12	\$ 1.28
Diluted	\$ 1.47	\$ 0.12	\$ 1.28

For additional information regarding the convertible preferred stock and stock option plans, see Notes 15 and 21, respectively.

NOTE 20. INFORMATION AND TECHNOLOGY SEGMENT INFORMATION

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Avista Fiber and Avista Communications merged operations in 2000, so Avista Fiber's financial information has been included with Avista Communications. Additional information for each of these three separate companies is provided as follows (thousands of dollars):

	YEARS ENDED DECEMBER 31,		
	2000 -----	1999 -----	1998 -----
AVISTA ADVANTAGE			
Operating Revenues	\$ 4,971	\$ 1,518	\$ 1,186
Operating Loss (pre-tax)	\$ (14,481)	\$ (5,042)	\$ (2,904)
Net Loss	\$ (11,022)	\$ (3,428)	\$ (2,052)
AVISTA LABS			
Operating Revenues	\$ 761	\$ 748	\$ 132
Operating Loss (pre-tax)	\$ (11,942)	\$ (3,924)	\$ (2,076)
Net Loss	\$ (8,010)	\$ (2,561)	\$ (1,169)
AVISTA COMMUNICATIONS			
Operating Revenues	\$ 5,913	\$ 2,585	\$ 677
Operating Income (Loss) (pre-tax)	\$ (13,661)	\$ (4,036)	\$ (212)
Net Income (Loss)	\$ (9,376)	\$ (2,631)	\$ (177)

NOTE 21. STOCK COMPENSATION PLANS

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In 1998, the Company adopted and shareholders approved an incentive compensation plan, the Long-Term Incentive Plan (1998 Plan). Under the 1998 Plan, certain key employees, directors and officers of the Company and its subsidiaries may be granted stock options, stock appreciation rights, stock awards (including restricted stock) and other stock-based awards and dividend equivalent rights. The Company has made available a maximum of 2.5

million shares of its common stock for grant under the 1998 Plan. The shares issued under the 1998 Plan will be purchased by the trustee on the open market. Non-employee Directors were added to this plan in 2000.

In addition, in 2000, the Company adopted a Non-Officer Employee Long-Term Incentive Plan (2000 Plan). The provisions of the 2000 Plan are essentially the same as those under the 1998 Plan, except for the exclusion of directors and officers of the Company.

The following summarizes stock options activity for 2000, 1999 and 1998 under the Plan:

	2000	1999	1998
	-----	-----	-----
Number of shares under stock options:			
Outstanding at beginning of year	1,360,325	589,800	--
Granted	623,200	780,700	589,800
Exercised	(44,975)	--	--
Canceled	(94,650)	(10,175)	--
	-----	-----	-----
Unexercised options outstanding at end of year	1,843,900	1,360,325	589,800
	=====	=====	=====
Exercisable options	581,025	147,200	--
	=====	=====	=====
Weighted average exercise price:			
Granted	\$ 23.03	\$ 17.21	\$ 20.14
Exercised	\$ 18.53	--	--
Canceled	\$ 18.15	\$ 18.63	--
Outstanding at end of year	\$ 19.80	\$ 18.29	\$ 20.14
Exercisable at end of year	\$ 18.72	\$ 19.63	--
Weighted average fair value of options granted during the year	\$ 12.02	\$ 5.02	\$ 4.74
Principal assumptions used in applying the Black-Scholes model:			
Risk-free interest rate	5.87% - 6.87%	5.57% - 6.63%	4.81% - 5.53%
Expected life, in years	7	7	7
Expected volatility	58.47%	27.92%	22.19%
Expected dividend yield	2.34%	3.11%	3.01%

Information with respect to stock options outstanding and stock options exercisable at December 31, 2000 is as follows:

Stock options outstanding	
Range of exercise prices	\$16.91 - \$29.22
Weighted average remaining contractual life, in years	9
Weighted average exercise price	\$19.80
Stock options exercisable	
Range of exercise prices	\$16.66 - \$22.62
Number exercisable	581,025
Weighted average exercise price	\$18.72

The Company granted 1,000 and 20,000 shares of restricted common stock under the Plan in 2000 and 1999, respectively. Plan participants are entitled to dividends and to vote their respective shares. The sale or transfer of restricted stock is prohibited during the vesting period except as specified in the award agreements. The value of restricted stock awards is established by the average market price on the date of grant. Restricted stock awarded in 2000 and 1999 have vesting periods from four to five years.

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

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

	2000	1999	1998
	-----	-----	-----
Net income (in thousands):			
As reported	\$ 91,679	\$ 26,031	\$ 78,139
Pro forma	\$ 89,850	\$ 24,636	\$ 76,891
Basic EPS as reported	\$ 1.49	\$ 0.12	\$ 1.28
Proforma Basic EPS	\$ 1.45	\$ 0.08	\$ 1.25
Diluted EPS as Reported	\$ 1.47	\$ 0.12	\$ 1.28
Proforma Diluted EPS	\$ 1.43	\$ 0.08	\$ 1.25

AVISTA CAPITAL COMPANIES

Certain subsidiaries under Avista Capital have adopted employee stock incentive plans under which key employees and directors were granted the opportunity to purchase shares of subsidiary common stock at prices equal to the fair market value as determined by each subsidiary's Board of Directors. Restricted shares are subject to transfer agreements and vest over various periods as defined in the plans.

Certain subsidiaries under Avista Capital have adopted employee stock incentive plans under which certain employees and directors of the Company and the subsidiaries are granted options to purchase subsidiary shares at prices no less than the fair market value on the date of grant. Options outstanding under these plans usually become fully exercisable between three and five years from the date granted and terminate ten years from the date granted. Upon termination of employment, vested options may be exercised and the related subsidiary shares may be, but are not required to be, repurchased by the applicable subsidiary at fair value.

NOTE 22. COMMITMENTS AND CONTINGENCIES

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

SECURITIES LITIGATION

On July 27, 2000, John Bain filed a lawsuit in the U.S. District Court for the Eastern District of Washington against the Company and Thomas M. Matthews, the former Chairman of the Board, President and Chief Executive Officer of the Company, and Jon E. Eliassen, a Senior Vice President and the Chief Financial Officer of the Company. On August 2, 2000, Wei Cao and William Dalton filed separate lawsuits in the same Court against the Company and Mr. Matthews. On August 7, 2000, Martin Capetz filed a lawsuit in the same Court against the Company, Mr. Matthews and Mr. Eliassen. On November 9, 2000, the court entered an order consolidating the cases, appointing the lead stockholder-plaintiff, and appointing lead stockholders-plaintiffs' counsel to prosecute the litigation. On February 13, 2001, plaintiffs filed their First Amended and Consolidated Class Action asserting claims on behalf of a purported class of persons who purchased Company common stock during the period April 14, 2000 through June 21, 2000. In their consolidated complaint, plaintiffs assert violations of Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 thereunder, arising out of various alleged misstatements and omissions in the Company's Annual Report on Form 10-K for the year 1999, its Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, and in other information made publicly available by the Company, and, further, claim that

plaintiffs and the purported class suffered damages as a result thereof. Such alleged misstatements and omissions are claimed to relate to the Company's trading activities in wholesale energy markets, the Company's risk management policies and procedures with respect thereto, and the Company's trading losses in the second quarter of 2000. The plaintiffs request, among other things, compensatory damages in unspecified amounts and other relief as the Court may deem proper. The Company denies liability and intends to defend the consolidated lawsuit vigorously.

The staff of the Securities and Exchange Commission has requested from the Company certain information regarding Avista Utilities' wholesale trading activities and its risk management policies and procedures with respect thereto. The Company is complying with this request.

COMMODITY FUTURES TRADING COMMISSION INVESTIGATION

Avista Energy and one or more of its former employees are the subject of an investigation by the Commodity Futures Trading Commission (CFTC) into futures trading, including certain electricity futures contracts, in July of 1998. As part of its investigation, the CFTC is examining the placement of orders on three separate dates in 1998 to purchase Palo Verde and California-Oregon Border (COB) futures contracts traded on the New York Mercantile Exchange and whether the trading in question amounted to a manipulation of the price of those contracts.

STATE OF WASHINGTON BUSINESS AND OCCUPATION TAX

The State of Washington's Business and Occupation Tax generally applies to gross receipts from business activities. Exceptions apply for financial trading activities involving stocks, bonds and futures contracts. For those activities, the gain from the transactions is the taxable basis. On an audit for the years 1997 through June of 2000, the Department of Revenue (DOR) made a distinction between certain types of energy trades entered into by Avista Energy. As a result, the DOR is attempting to apply tax to the gross receipts rather than the trading gains on about 20% of Avista Energy's trading volume for the audit period. Avista Energy has received a notice of assessment that contains a deficiency of about \$13.5 million related to the disputed issue. Avista Energy believes that all of its trading activity should be subject to tax on the trading gains only, and taxes have been accrued and paid based on this position. An administrative appeal is currently being prepared for submittal to the DOR. No estimate of the timing for an administrative resolution is available. In the event a satisfactory determination is not received from the administrative process, Avista Energy is prepared to seek recourse through the courts.

SPOKANE GAS PLANT

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

The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. In the spring of 1999, the DOE named two other parties as additional PLPs. The Company completed additional characterization of the site for the remedial investigation (RI).

The DOE issued a Draft Agreed Order to the Company on January 17, 2000, and solicited public comment. The Agreed Order was signed by the DOE, the Company and Burlington Northern & Santa Fe Railway Co. (another PLP) on March 13, 2000. The work to be performed under the Agreed Order includes three major technical parts: completion of the RI; performance of a focused Feasibility Study (FS); and implementation of an interim groundwater monitoring plan. During the second quarter, the Company received comments from the DOE on its initial RI, then submitted another draft of the RI, which has been accepted as final by the DOE. The Company also received comments from the DOE pertaining to the FS, which outlines cleanup alternatives. Another FS, which responded to the DOE comments, was submitted to the DOE on October 13. The Company received final comments and submitted another draft of the FS in November, which was accepted. The public comment period ran from December 15, 2000 through January 18, 2001. After the comment period, the DOE will issue a draft Clean-up Action Plan (CAP), which is expected by the end of March.

EASTERN PACIFIC ENERGY

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

On December 4, 1998, Avista Advantage, Avista Energy and the Company jointly filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. On May 4, 1999, the Court granted the Company's and its affiliates' motion to dismiss the case and granted the plaintiff the opportunity to file and serve an Amended Complaint, which it did. The Company and its affiliates renewed their motion to dismiss and on October 22, 1999, the Court again granted the motion to dismiss, this time with prejudice. Plaintiff appealed this adverse determination to the Ninth Circuit Court of Appeals. A settlement agreement was reached among the parties, whereby the suit would be dismissed with prejudice and without any payment to Eastern Pacific, up vacation by the Federal District Court of its earlier judgment of dismissal of Eastern Pacific's claims. On February 8, 2001, the Court entered its Order Granting the Joint Motion to Vacated Judgment and Dismissing the Action with Prejudice. The Ninth Circuit Court of Appeals had previously entered an Order on October 29, 2000, dismissing the appeal pursuant to a stipulation of the parties.

SALE OF CERTAIN PENTZER CORPORATION SUBSIDIARIES

On February 26, 2001, IDX Corporation, formerly known as Store Fixtures Group, Inc., filed a complaint against Pentzer in the United States District Court for the District of Massachusetts, alleging breach of contract and negligent misrepresentation relating to a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on August 31, 1999. Plaintiff alleges that Pentzer breached various representations and warranties concerning financial statements and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiff claims damages in the approximate amount of \$9 million. Pentzer has retained legal counsel and intends to vigorously defend against this action.

On April 7, 2000, Creative Solutions Group, Inc. and Form House Holdings, Inc. filed a complaint against Pentzer Corporation in the United States District Court for the District of Massachusetts, alleging misrepresentations and breach of representations and warranties made under a stock purchase agreement. Pursuant to this agreement, Pentzer sold the capital stock of a group of companies on March 31, 1999. Plaintiffs allege that Pentzer breached various representations and warranties concerning financial statements, cost of goods sold and inventory, contending that reliance on such representations and warranties caused them to pay more for the group of companies than they were worth. In total, plaintiffs allege damages in the approximate amount of \$27 million. Pentzer has retained legal counsel and intends to vigorously defend against this action. The Court denied Pentzer's request that the matter be sent to arbitration and Pentzer has appealed that determination to the First Circuit Court of Appeals.

OTHER CONTINGENCIES

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

The Company has potential liabilities under the Federal Endangered Species Act (ESA) for species of fish that have either already been added to the endangered species list, been listed as "threatened" or been petitioned for listing. Thus far, measures that have been adopted and implemented have had minimal impact of the Company. The new operating license for the Clark Fork Projects describes the approach to restore bull trout populations in the project areas. Using the concept of adaptive management, the Company will evaluate the feasibility of fish passage, and, depending upon the results of these experimental studies, determine the applications of funds toward continuing fish passage efforts or other population enhancement measures.

The Company continues to study the issue of high dissolved gas levels downstream of Cabinet Gorge during spill periods, as agreed to in the Settlement Agreement of the new license for Cabinet Gorge. To date, intensive biological studies in the lower Clark Fork River and Lake Pend Oreille have documented minimal biological effects of high dissolved gas levels on free ranging fish. Under the terms of the Settlement Agreement, the Company will develop an abatement and/or mitigation strategy by 2002.

Under the federal licenses for its hydroelectric projects, the Company is obligated to protect its property rights, including water rights. The State of Montana is examining the status of all water right claims within state boundaries, which could potentially adversely affect the generating capacity of the Company's Cabinet Gorge and Noxon Rapids hydroelectric facilities. The Company is participating in this extended process, which is unlikely to be concluded in the foreseeable future.

The Company must be in compliance with requirements under the Clean Air Act Amendments (CAAA) at the Colstrip thermal generating plant, in which the Company maintains an ownership interest. The anticipated share of costs at Colstrip is not expected to have a major economic impact on the Company.

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

As of December 31, 2000, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 53% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 2002. A local agreement in the South Lake Tahoe area, which represents 5 employees, expires on March 25, 2002.

NOTE 23. ACQUISITIONS AND DISPOSITIONS

On May 5, 2000, the owners of the Centralia Power Plant sold the plant to TransAlta, a Canadian company. Avista Utilities recorded an after-tax gain totaling \$9.0 million from the sale of its 17.5% ownership interest in the plant. Of the total after-tax gain of \$37.2 million from the sale of Centralia, \$28.2 million was deferred, to be returned to Avista Utilities' customers through rates over established periods of time. Washington customers received \$20.7 million of the after-tax gain through pre-tax credits to their electric bills over the two-month period of December 2000 and January 2001. Idaho customers will receive the remaining \$7.5 million of the after-tax gain, which translates into a pre-tax reduction of 1.8% over an eight-year period.

During the first quarter of 1999, Pentzer sold its Creative Solutions Group, a group of five portfolio companies that provide point-of-purchase displays and other merchandising and packaging services to retailers and consumer product companies. The sale resulted in a gain of \$10.1 million, net of taxes. During the third quarter of 1999, Pentzer sold its Store Fixtures Group, a group of six portfolio companies that design, manufacture and deliver store fixture products to major retailers. The sale resulted in a gain of \$27.6 million, net of taxes. During the first quarter of 1998, Pentzer sold Systran Financial Services, resulting in an after-tax gain of \$5.5 million. In November 1999, Pentzer purchased the International Retail Services Group, a company that provides backroom supplies for retail stores; this company was sold in November 2000.

In February 1999, Avista Energy purchased Vitol Gas & Electric, LLC (Vitol), based in Boston, Massachusetts. Vitol traded natural gas, electricity, coal and SO2 allowances in markets in the eastern half of the United States. The acquisition was funded through the issuance of additional shares of common stock to Avista Capital.

In January 1999, Avista Corp. acquired a majority ownership in One Eighty Communications, a competitive local exchange carrier that provided local dial tone and data services to commercial accounts in local communities. The new company was renamed Avista Communications.

NOTE 24. SELECTED QUARTERLY INFORMATION (UNAUDITED)

The Company's energy operations are significantly affected by weather conditions. Consequently, there can be large variances in revenues, expenses and net income between quarters based on seasonal factors such as temperatures and streamflow conditions. A summary of quarterly operations (in thousands of dollars except per share amounts) for 2000 and 1999 follows:

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2000				
Operating revenues	\$ 1,381,974	\$ 1,353,414	\$ 2,864,305	\$ 2,311,797
Operating income	29,073	(27,743)	67,899	134,199
Net income	10,525	(21,493)	34,540	68,107
Income available for common stock	(11,385)	(22,101)	33,932	67,498
Outstanding common stock (000s):				
Weighted average	41,297	47,113	47,147	47,172
Actual	47,078	47,128	47,159	47,209
Earnings per share:				
Avista Utilities	\$ (0.05)	\$ (1.33)	\$ (0.02)	\$ 0.03
Energy Trading and Marketing	(0.09)	1.00	0.89	1.74
Information and Technology	(0.14)	(0.13)	(0.14)	(0.21)
Avista Ventures	--	(0.01)	(0.01)	(0.04)
Earnings per share, basic	\$ (0.28)	\$ (0.47)	\$ 0.72	\$ 1.52
Earnings per share, diluted	\$ (0.28)	\$ (0.47)	\$ 0.72	\$ 1.50
Dividends paid per common share	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12
Trading price range per share:				
High	\$ 68.000	\$ 41.125	\$ 30.440	\$ 23.500
Low	\$ 14.625	\$ 15.750	\$ 16.813	\$ 17.880
1999				
Operating revenues	\$ 1,212,822	\$ 1,411,736	\$ 3,718,109	\$ 1,562,317
Operating income	30,363	17,380	18,197	(34,583)
Net income	19,388	8,509	27,613	(29,479)
Income available for common stock	14,004	3,125	22,273	(34,763)
Outstanding common stock (000s):				
Weighted average	40,454	40,185	36,634	35,648
Actual	40,454	38,881	35,645	35,648
Earnings per share:				
Avista Utilities	\$ 0.35	\$ 0.39	\$ (0.13)	\$ 0.39
Energy Trading and Marketing	(0.18)	(0.27)	0.02	(1.16)
Information and Technology	(0.03)	(0.04)	(0.06)	(0.14)
Avista Ventures	0.21	--	0.78	(0.01)
Earnings per share, basic	\$ 0.35	\$ 0.08	\$ 0.61	\$ (0.92)
Earnings per share, diluted	\$ 0.34	\$ 0.08	\$ 0.52	\$ (0.92)
Dividends paid per common share	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12
Trading price range per share:				
High	\$ 19.563	\$ 18.188	\$ 18.063	\$ 18.125
Low	\$ 15.938	\$ 14.625	\$ 16.250	\$ 15.000

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors of the Registrant has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

Executive Officers of the Registrant

Name	Age	Business Experience During Past 5 Years
Larry A. Stanley	72	Chairman of the Board since November 2000.
Gary G. Ely	53	President and Chief Executive Officer since October 2000; Executive Vice President February 1999 - October 2000; Senior Vice President and General Manager August 1996 - February 1999; Vice President - Natural Gas February 1991- August 1996.
Jon E. Eliassen	53	Senior Vice President and Chief Financial Officer since November 1998; Senior Vice President, Chief Financial Officer and Treasurer December 1997 - November 1998; Senior Vice President and Chief Financial Officer August 1996 - December 1997; Vice President - Finance and Chief Financial Officer February 1986 - August 1996.
David J. Meyer	47	Senior Vice President and General Counsel since September 1998; prior to employment with the Registrant: Attorney - Paine Hamblen Coffin Brooke & Miller 1974 - September 1998.
David A. Brukardt	46	Chief Communication Officer and Vice President of Investor and Corporate Relations since August 2000; Vice President - Investor Relations July 1999 - August 2000; prior to employment with the Registrant: Director - Investor and Corporate Relations - Harnischfeger Industries, Inc. and Vice President - Harnischfeger Foundation July 1995 - July 1999.
Christy M. Burmeister-Smith	44	Vice President and Controller since June 1999; Controller - Energy Delivery and various other positions with the Company since 1980.
Robert D. Fukai	51	Vice President - External Relations since August 1996; Vice President - Human Resources, Corporate Services and Marketing January 1993 - August 1996.
Scott Morris	43	Vice President since November 2000; President - Avista Utilities since August 2000; General Manager - Avista Utilities October 1991 - August 2000.
Kelly Norwood	42	Vice President since November 2000; Vice President and General Manager of Energy Resources - Avista Utilities since August 2000; various other staff and management positions with the Company since 1981.
Ronald R. Peterson	48	Vice President and Treasurer since November 1998; Vice President and Controller February 1998 - November 1998; Controller August 1996 - February 1998; Treasurer February 1992 - August 1996.
Terry L. Syms	52	Vice President and Corporate Secretary since February 1998; Corporate Secretary March 1988 - February 1998.

AVISTA CORPORATION

Name	Age	Business Experience During Past 5 Years
Roger D. Woodworth	44	Vice President - Corporate Development since November 1998; Director of Corporate Development and various other positions with the Company since 1979.

All of the Company's executive officers, with the exception of Messrs. Fukai, Norwood and Woodworth and Mme. Burmeister-Smith were officers or directors of one or more of the Company's subsidiaries in 2000.

Executive officers are elected annually by the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

Information regarding security ownership of certain beneficial owners (owning 5% or more of Registrant's voting securities) has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

- (b) Security ownership of management:

Information regarding security ownership of management has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

- (c) Changes in control:

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 10, 2001.

PART IV

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

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

Independent Auditors' Report

Consolidated Statements of Income, Comprehensive Income and Retained Earnings for the Years Ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheets, December 31, 2000 and 1999

Consolidated Statements of Capitalization, December 31, 2000 and 1999

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998

Schedule of Information by Business Segments for the Years Ended December 31, 2000, 1999 and 1998

Notes to Financial Statements

(a) 2. Financial Statement Schedules:

None

(a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 79. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K:

Dated January 6, 2000, regarding lower utility revenues due to warm weather and fourth quarter charges due to restructuring at Avista Energy and impairment of utility assets.

Dated January 28, 2000, announcing the conversion of the Series L Convertible Preferred Stock into common stock.

Dated June 21, 2000, reporting significant increases in energy expenses and the impact on Company earnings.

Dated July 26, 2000, announcing earnings for the second quarter of 2000.

Dated August 25, 2000, announcing executive changes within Avista Corp. and Avista Utilities.

Dated October 25, 2000, announcing earnings for the third quarter of 2000 and the resignation of T. M. Matthews, the Company's Chairman of the Board, President and Chief Executive Officer.

AVISTA CORPORATION

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVISTA CORPORATION

March 8, 2001

By /s/ Gary G. Ely

Date

Gary G. Ely
President and Chief Executive Officer

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

Signature

Title

Date

/s/ Gary G. Ely

Principal Executive Officer

March 8, 2001

Gary G. Ely
President and Chief Executive Officer

/s/ J. E. Eliassen

Principal Financial
and Accounting Officer

March 8, 2001

J. E. Eliassen (Senior Vice President
and Chief Financial Officer)

/s/ Erik J. Anderson

Director

March 8, 2001

Erik J. Anderson

/s/ Kristianne Blake

Director

March 8, 2001

Kristianne Blake

/s/ David A. Clack

Director

March 8, 2001

David A. Clack

/s/ Sarah M. R. Jewell

Director

March 8, 2001

Sarah M. R. Jewell

/s/ John F. Kelly

Director

March 8, 2001

John F. Kelly

/s/ Eugene W. Meyer

Director

March 8, 2001

Eugene W. Meyer

/s/ Bobby Schmidt

Director

March 8, 2001

Bobby Schmidt

/s/ Larry A. Stanley

Director

March 8, 2001

Larry A. Stanley

/s/ R. John Taylor

Director

March 8, 2001

R. John Taylor

/s/ Daniel J. Zaloudek

Director

March 8, 2001

Daniel J. Zaloudek

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-81697, 2-94816, 33-54791, 33-32148, 333-33790, and 333-47290 on Form S-8, and in Registration Statement Nos. 33-53655, 333-39551, 333-82165, 333-16353, and 333-16353-03 on Form S-3 of our report dated February 2, 2001, (February 26, 2001 as to Note 22), appearing in this Annual Report on Form 10-K of Avista Corporation for the year ended December 31, 2000.

/s/ Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Seattle, Washington
March 6, 2001

EXHIBIT INDEX

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
3 (a)	1-3701 (with 1998 Form 10-K)		Restated Articles of Incorporation of Avista Corporation as restated February 25, 1999.
3 (b)	1-3701 (with 2000 2nd Quarter 10-Q)		Bylaws of Avista Corporation, as amended July 1, 2000.
4 (a)-1	2-4077 B-3		Mortgage and Deed of Trust, dated as of June 1, 1939.
4 (a)-2	2-9812 4 (c)		First Supplemental Indenture, dated as of October 1, 1952.
4 (a)-3	2-60728	2 (b)-2	Second Supplemental Indenture, dated as of May 1, 1953.
4 (a)-4	2-13421	4 (b)-3	Third Supplemental Indenture, dated as of December 1, 1955.
4 (a)-5	2-13421	4 (b)-4	Fourth Supplemental Indenture, dated as of March 15, 1967.
4 (a)-6	2-60728	2 (b)-5	Fifth Supplemental Indenture, dated as of July 1, 1957.
4 (a)-7	2-60728	2 (b)-6	Sixth Supplemental Indenture, dated as of January 1, 1958.
4 (a)-8	2-60728	2 (b)-7	Seventh Supplemental Indenture, dated as of August 1, 1958.
4 (a)-9	2-60728	2 (b)-8	Eighth Supplemental Indenture, dated as of January 1, 1959.
4 (a)-10	2-60728	2 (b)-9	Ninth Supplemental Indenture, dated as of January 1, 1960.
4 (a)-11	2-60728	2 (b)-10	Tenth Supplemental Indenture, dated as of April 1, 1964.
4 (a)-12	2-60728	2 (b)-11	Eleventh Supplemental Indenture, dated as of March 1, 1965.
4 (a)-13	2-60728	2 (b)-12	Twelfth Supplemental Indenture, dated as of May 1, 1966.
4 (a)-14	2-60728	2 (b)-13	Thirteenth Supplemental Indenture, dated as of August 1, 1966.
4 (a)-15	2-60728	2 (b)-14	Fourteenth Supplemental Indenture, dated as of April 1, 1970.
4 (a)-16	2-60728	2 (b)-15	Fifteenth Supplemental Indenture, dated as of May 1, 1973.
4 (a)-17	2-60728	2 (b)-16	Sixteenth Supplemental Indenture, dated as of February 1, 1975.
4 (a)-18	2-60728	2 (b)-17	Seventeenth Supplemental Indenture, dated as of November 1, 1976.
4 (a)-19	2-69080	2 (b)-18	Eighteenth Supplemental Indenture, dated as of June 1, 1980.
4 (a)-20	1-3701 (with 1980 Form 10-K)	4 (a)-20	Nineteenth Supplemental Indenture, dated as of January 1, 1981.
4 (a)-21	2-79571	4 (a)-21	Twentieth Supplemental Indenture, dated as of August 1, 1982.

*Incorporated herein by reference.

**Filed herewith.

 EXHIBIT INDEX (continued)

Previously Filed*

Exhibit	With Registration Number	As Exhibit	
4(a)-22	1-3701 (with Form 8-K dated September 20, 1983)	4(a)-22	Twenty-First Supplemental Indenture, dated as of September 1, 1983.
4(a)-23	2-94816	4(a)-23	Twenty-Second Supplemental Indenture, dated as of March 1, 1984.
4(a)-24	1-3701 (with 1986 Form 10-K)	4(a)-24	Twenty-Third Supplemental Indenture, dated as of December 1, 1986.
4(a)-25	1-3701 (with 1987 Form 10-K)	4(a)-25	Twenty-Fourth Supplemental Indenture, dated as of January 1, 1988.
4(a)-26	1-3701 (with 1989 Form 10-K)	4(a)-26	Twenty-Fifth Supplemental Indenture, dated as of October 1, 1989.
4(a)-27	33-51669	4(a)-27	Twenty-Sixth Supplemental Indenture, dated as of April 1, 1993.
4(a)-28	1-3701 (with 1993 Form 10-K)	4(a)-28	Twenty-Seventh Supplemental Indenture, dated as of January 1, 1994.
4(a)-29	333-82165	4(a)	Indenture dated as of April, 1 1998 between Avista Corp. Corporation and The Chase Manhattan Bank, as Trustee.
4(b)-1	1-3701 (with 1999 Form 10-K)		Loan Agreement between City of Forsyth, Montana, and the Company, dated as of September 1, 1999 (Series 1999A).
4(b)-2	1-3701 (with 1999 Form 10-K)		Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1999A) between City of Forsyth, Montana, and Chase Manhattan Bank and Trust Company, N.A., dated as of September 1, 1999.
4(b)-3	1-3701 (with 1999 Form 10-K)		Loan Agreement between City of Forsyth, Montana, and the Company, dated as of September 1, 1999 (Series 1999B).
4(b)-4	1-3701 (with 1999 Form 10-K)		Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1999B) between City of Forsyth, Montana, and Chase Manhattan Bank and Trust Company, N.A., dated as of September 1, 1999.
4(c)-1	1-3701 (with 1988 Form 10-K)	4(h)-1	Indenture between the Company and Chemical Bank dated as of July 1, 1988 (Series A and B Medium-Term Notes).
4(d)-2	**		Amended and Restated Revolving Credit Agreement among Avista Corporation, Toronto Dominion (Texas), Inc., Bank of America, N.A. and The Bank of New York, dated June 26, 2000.

 *Incorporated herein by reference.
 **Filed herewith.

 EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
4 (e)	1-3701 (with Form 8-K dated November 15, 1999)	4	Rights Agreement, dated as of November 15, 1999, between the Company and the Bank of New York as successor Rights Agent.
10 (a)-1	2-13788	13 (e)	Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of November 14, 1957.
10 (a)-2	2-60728	10 (b)-1	Amendment to Power Sales Contract (Rocky Reach Project) with Public Utility District No. 1 of Chelan County, Washington, dated as of June 1, 1968.
10 (b)-1	2-13421	13 (d)	Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of May 22, 1956.
10 (b)-2	2-60728	5 (d)-1	Second Amendment to Power Sales Contract (Priest Rapids Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10 (c)-1	2-60728	5 (e)	Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of June 22, 1959.
10 (c)-2	2-60728	5 (e)-1	First Amendment to Power Sales Contract (Wanapum Project) with Public Utility District No. 2 of Grant County, Washington, dated as of December 19, 1977.
10 (d)-1	2-60728	5 (g)	Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10 (d)-2	2-60728	5 (g)-1	Amendment to Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10 (d)-3	2-60728	5 (h)	Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of September 18, 1963.
10 (d)-4	2-60728	5 (h)-1	Amendment to Reserved Share Power Sales Contract (Wells Project) with Public Utility District No. 1 of Douglas County, Washington, dated as of February 9, 1965.
10 (e)	2-60728	5 (i)	Canadian Entitlement Exchange Agreement executed by Bonneville Power Administration Columbia Storage Power Exchange and the Company, dated as of August 13, 1964.
10 (f)	2-60728	5 (j)	Pacific Northwest Coordination Agreement, dated as of September 15, 1964.

 *Incorporated herein by reference.
 **Filed herewith.

 EXHIBIT INDEX (continued)

Previously Filed*

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

 *Incorporated herein by reference.
 **Filed herewith.

 EXHIBIT INDEX (continued)

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

 *Incorporated herein by reference.
 **Filed herewith.

 EXHIBIT INDEX (continued)

Exhibit	Previously Filed*		
	With Registration Number	As Exhibit	
10(p)	1-3701 (with 1992 Form 10-K)	10(s)-1	Agreements for Purchase and Sale of Firm Capacity between the Company and Portland General Electric Company dated March and June 1992.
10(q)-1	1-3701 (with 1992 Form 10-K)	10(t)-8	Executive Deferral Plan of the Company. (***)
10(q)-2	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(q)-3	1-3701 (with 1992 Form 10-K)	10(t)-11	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(q)-4	1-3701 (with 1992 Form 10-K)	10(t)-12	Income Continuation Plan of the Company. (***)
10(q)-5	1-3701 (with 1998 Form 10-K)		Long-Term Incentive Plan. (***)
10(q)-6	1-3701 (with 1998 Form 10-K)		Employment Agreement between the Company and T.M. Matthews. (***)
10(q)-7	1-3701 (with 1999 Form 10-K)		Employment Agreement between the Company and David J. Meyer. (***)
12	**		Statement re computation of ratio of earnings to fixed charges and preferred dividend requirements.
21	**		Subsidiaries of Registrant.

 * Incorporated herein by reference.

** Filed herewith.

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

AMENDED AND RESTATED

REVOLVING CREDIT AGREEMENT

(\$120,000,000)

(364 DAY)

among

AVISTA CORPORATION,

THE BANKS NAMED HEREIN,

TORONTO DOMINION (TEXAS), INC.,

BANK OF AMERICA, N.A.

and

THE BANK OF NEW YORK

Dated as of June 26, 2000

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Exhibit A	Form of Note
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Exhibit C	Form of Administrative Questionnaire
Exhibit D-1	Form of Opinion of Counsel for the

Exhibit D-2	Borrower
Schedule 2.01	Form of Opinion of Special Counsel for the Borrower
Schedule 3.14	Banks
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	Statutes and Orders of Governmental Authorities

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT dated as of June 26, 2000, among AVISTA CORPORATION, a Washington corporation (herein called the "Borrower"), the banks listed in Schedule 2.01 (the "Banks"), TORONTO DOMINION (TEXAS), INC., as agent for the Banks (in such capacity, the "Agent"), BANK OF AMERICA, N.A. (formerly known as "Bank of America National Trust and Savings Association"), as syndication agent (the "Syndication Agent") and THE BANK OF NEW YORK, as documentation agent (the "Documentation Agent").

Pursuant to the Pre-Restatement Credit Agreement (as defined herein), certain banks have extended credit to, and/or issued letters of credit on behalf of, the Borrower. The Borrower has requested that the Pre-Restatement Credit Agreement be amended and restated in the form of this Agreement and that the Banks extend credit to the Borrower in order to enable the Borrower to borrow on a standby revolving credit basis and obtain letters of credit on and after the date hereof, at any time prior to the Expiration Date (as defined herein) in a principal amount not in excess of \$108,825,000 at any time outstanding (subject to a possible increase to \$120,000,000, as provided in Section 2.01(b) below). The proceeds of such borrowings and such letters of credit are to be used for general corporate purposes. In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

"Agency Fees" shall have the meaning assigned to such term in Section 2.07(c).

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

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

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

(a) Loan Spreads, Commitment Fee and Letters of Credit Participation Fees

Ratings	ABR Spread	Eurodollar Spread	Commitment Fee	Letter of Credit Participation Fees
Level 1 A- or higher by S&P; and A3 or higher by Moody's	0.00%	.625%	.125%	.625%
Level 2 BBB+ by S&P; and Baa1 by Moody's	0.00%	.75%	.15%	.75%
Level 3 BBB by S&P; and Baa2 by Moody's	0.00%	.875%	.20%	.875%
Level 4 BBB- by S&P; and Baa3 by Moody's	0.00%	1.00%	.25%	1.00%
Level 5 BB+ by S&P; and Ba1 by Moody's	.25%	1.25%	.375%	1.25%
Level 6 Lower than BB+ by S&P; and lower than Ba1 by Moody's	.50%	1.50%	.50%	1.50%

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Rate shall be determined on such date by reference to the inferior (numerically higher) Level, unless the Ratings differ by more than one Level, in which case the applicable Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency

will be deemed to have established a Rating in Level 5; and (iii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non-availability of ratings from such rating agency.

(b) Utilization Fees

Utilization Level	Utilization Fee
Level 1	.15%

>.33 and less than/equal to .50	
Level 2	.30%

>.50 and less than/equal to .75	
Level 3	.50%

>.75	

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

"Auction Bid" shall mean an offer by a Bank to

make an Auction Loan in accordance with Section 2.04.

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

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

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

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

"Availability Period" shall mean the period from and including the Effective Date to but excluding the earlier of the Expiration Date and the date of the termination of the Commitments.

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

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

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

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

shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of shares representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; provided, that no event described in clause (a) or clause (b) shall constitute a "Change in Control" if the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after giving effect to the transaction that would otherwise constitute a Change in Control.

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

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

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

"Commitment" shall mean, with respect to each Bank, the commitment of such Bank to make Revolving Loans and to acquire participations in Letters of Credit hereunder as set forth in Sections 2.01 and 2.06, as the same may be reduced from time to time pursuant to Section 2.11.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.07(a).

"Consolidated Total Capitalization" on any date means the sum, without duplication, of the following with respect to the Borrower and its consolidated subsidiaries: (a) total capitalization as of such date, as determined in accordance with GAAP, (b) the current portion of liabilities which as of such date would be classified in whole or part

as long-term debt in accordance with GAAP (it being understood that the noncurrent portion of such liabilities is included in the total capitalization referred to in clause (a)), (c) all obligations as lessee which, in accordance with GAAP, are capitalized as liabilities (including the current portion thereof), and (d) all other liabilities which would be classified as short-term debt in accordance with GAAP.

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

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

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

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

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

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

"Environmental Law" shall mean any and all applicable present and future treaties, laws, regulations, enforceable requirements, binding determinations, orders, decrees, judgments, injunctions, permits, approvals, authorizations, licenses, permissions, notices or binding agreements issued, promulgated or entered by any Governmental Authority, relating to the environment, preservation or reclamation of natural resources, or to the management, release or threatened release of contaminants or noxious odor, including the Hazardous Materials Transportation Act, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, Clean Air Act of 1970, as amended, Toxic Substances Control Act of 1976, Occupational Safety and Health Act of 1970, as amended, Emergency Planning and Community Right-to-Know Act of 1986, Safe Drinking Water Act of 1974, as amended, and any similar or implementing state law, and all amendments or regulations promulgated thereunder.

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

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

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

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

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

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the product of (i) the arithmetic average of rates at which dollar deposits approximately equal to the principal amount of the portion of such Eurodollar Loan to be made by The Toronto-Dominion Bank, and for a maturity equal to the applicable Interest Period, are offered to The Toronto-Dominion Bank for Eurodollars at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period and (ii) Statutory Reserves. In the event that such rate is not available at such time for any reason, then the "Eurodollar Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Agent in immediately available funds in the London interbank market at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period.

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

"Expiration Date" shall mean June 25, 2001.

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

"Fees" shall mean the Commitment Fee and the Agency Fees.

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

"First Mortgage" shall mean the Mortgage and Deed of Trust dated as of June 1, 1939, made by the Borrower in

favor of Citibank, N.A., as successor Trustee, as the same has been amended, modified or supplemented to date and as the same may be further amended, modified or supplemented from time to time hereafter.

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

"Fixed Rate Loan" shall mean an Auction Loan bearing interest at a Fixed Rate for which an Auction Bid Request is made on the day of the proposed borrowing.

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

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

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

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds,

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

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

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6

months thereafter, as the Borrower may elect, (b) as to any ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Expiration Date, and (iii) the date such Borrowing shall be repaid or prepaid in accordance with Section 2.12 and (c) with respect to any Fixed Rate Borrowing or Delayed Fixed Rate Borrowing, the period (which shall not be less than 7 days or more than 360 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Auction Bid Request; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Issuing Bank" shall mean The Toronto-Dominion Bank in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.06(i). The Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of the Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

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

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

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

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale

agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

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

"Loan Documents" shall mean this Agreement and any Notes and any Letter of Credit applications referred to in Section 2.06(a).

"Margin" shall mean, with respect to any Auction Loan bearing interest at a rate based on the Eurodollar Rate, the marginal rate of interest, if any, to be added to or subtracted from the Eurodollar Rate to determine the rate of interest applicable to such Loan, as specified by the Bank making such Loan in its related Auction Bid.

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

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

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

"Notes" shall mean any promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans, as may be delivered pursuant to Section 2.05.

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

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

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

ERISA Affiliate.

"Pre-Restatement Credit Agreement" shall mean the Revolving Credit Agreement (3 Year) among the Borrower, the banks named therein, Toronto Dominion (Texas), Inc., Bank of America National Trust and Savings Association and The Bank of New York, dated as of June 30, 1998, and as in effect prior to its amendment and restatement hereby.

"Prime Rate" shall mean the rate of interest per annum adopted from time to time by The Toronto-Dominion Bank at its principal office in New York City as its prime rate. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is adopted.

"Ratings" shall refer to the ratings of Moody's and S&P applicable to the Borrower's senior unsecured long-term debt obligations.

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

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

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

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

"Related Parties" shall mean, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Reportable Event" shall mean any reportable event

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

"Required Banks" shall mean, at any time, Banks having Revolving Credit Exposures representing at least 66-2/3% of the aggregate Revolving Exposures or, if there shall be no Revolving Credit Exposure, Banks having Commitments representing at least 66-2/3% of the aggregate Commitments. For purposes of declaring the Loans to be due and payable pursuant to Article VII and of demanding the deposit of cash collateral pursuant to Section 2.06(i), and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Auction Loans of the Banks shall be included in their respective Revolving Credit Exposure in determining the Required Banks.

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

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

"Revolving Loan" shall mean a Loan made pursuant to Section 2.03.

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

"Significant Subsidiary" shall mean a Subsidiary meeting any one of the following conditions: (a) the investments in and advances to such Subsidiary by the Borrower and the other Subsidiaries, if any, as at the end of the Borrower's latest fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (b) the Borrower's and the other Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of such Subsidiary as at the end of the Borrower's latest

fiscal quarter exceeded 10% of the total assets of the Borrower and its Subsidiaries at such date, computed and consolidated in accordance with GAAP; or (c) the equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of such Subsidiary for the period of four consecutive fiscal quarters ending at the end of the Borrower's latest fiscal quarter exceeded 10% of such income of the Borrower and its Subsidiaries for such period, computed and consolidated in accordance with GAAP; or (d) such Subsidiary is the parent of one or more Subsidiaries and, together with such Subsidiaries would, if considered in the aggregate, constitute a Significant Subsidiary.

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

"Structuring Fee" shall have the meaning assigned to such term in Section 2.07(c).

"subsidiary" shall mean, for any person (the "Parent"), any corporation, partnership or other entity of which securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or

might have voting power by reason of the happening of any contingency) are at the time directly or indirectly owned or controlled by the Parent or one or more of its subsidiaries or by the Parent and one or more of its subsidiaries.

"Subsidiary" shall mean a subsidiary of the Borrower.

A "Subsidiary Event" shall mean the following; provided, however, that a Subsidiary Event shall not be deemed to have occurred if the Banks have previously consented thereto:

(a) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Section 5.01(a) as if such section applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary;

(b) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement in Sections 5.01(b), 5.02, 5.03 or 5.07 as if such sections applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary, and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Bank to the Borrower;

(c) any Significant Subsidiary shall:

(i) merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of such Significant Subsidiary's business, except that if, at the time thereof and immediately after giving effect thereto no Event

of Default or Default shall have occurred and be continuing, then (A) such Significant Subsidiary may (i) merge with or into, or consolidate with, any Subsidiary or (ii) merge with or into, or consolidate with, the Borrower in a transaction in which the Borrower is the surviving corporation, (B) such Significant Subsidiary may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (C) such Significant Subsidiary may merge with or into, or consolidate with, any other person so long as the assets of such person at the time of such consolidation or merger, do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (D) such Significant Subsidiary may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as the assets being purchased, leased or acquired (or the Significant Subsidiary's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied, or

(ii) sell, lease, transfer, assign or other wise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or dispositions by the Borrower permitted under Section 6.03 (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (i) through (iv) of such Section), are in excess of 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed

and consolidated in accordance with GAAP consistently applied, except (A) a Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, in any fiscal year, assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or dispositions in the ordinary course permitted under Section 6.03(i), do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (B) to the extent permitted in clause (c)(i) above and (C) any Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein;

provided, however, that, notwithstanding anything in this clause (c) to the contrary, a Subsidiary Event shall not be deemed to have occurred and shall not constitute an Event of Default under paragraph (k) of Article VII if, after giving effect to the consummation of any transaction contemplated by clause (c)(i) or (c)(ii) hereof, such Significant Subsidiary shall have or shall be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

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

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

"Utilization Fee" shall have the meaning assigned to such term in Section 2.07.

"Utilization Level" shall mean the ratio of the outstanding principal amount of Loans and the LC Exposure to

the total Commitments.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that, for purposes of determining compliance with any covenant set forth in Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.05.

ARTICLE II. THE CREDITS

SECTION 2.01. (a) Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make Revolving Loans to the Borrower, at any time and from time to time on or after the date of this Agreement, and until the earlier of the Expiration Date and the termination of the Commitment of such Bank in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (i) the Revolving Credit Exposure of any Bank exceeding the Commitment set forth opposite its name in Schedule 2.01 hereto, as the same may be reduced from time to time pursuant to Section 2.11 or (ii) the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans exceeding the total Commitments.

Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and

reborrow Revolving Loans on or after the date of this Agreement and prior to the Expiration Date, subject to the terms, conditions and limitations set forth herein.

(b) On not more than two occasions the Borrower may by written notice to the Administrative Agent cause New Banks (as defined below) to assume Commitments by an aggregate amount not in excess of \$11,175,000 in the aggregate (the "New Commitments"). Each such notice shall specify (i) the date (each a "Transition Date") on which the Borrower proposes that New Commitments shall become effective, which shall be not less than ten Business Days after the date on which such notice is delivered to the Administrative Agent and (ii) the identity of each person that has agreed to assume any portion of such New Commitments (each a "New Bank") and the amount of such New Commitments allocated to such New Bank. Subject only to there not existing any Default or Event of Default on such Transition Date before or after giving effect to such New Commitments, such New Commitments shall become effective as of such Transition Date and, if any Revolving Loans are outstanding on such Transition Date, each Bank shall assign to the New Banks, and each of the New Banks shall purchase from the Banks, at the principal amount thereof, such interests in the Revolving Loans outstanding on such Transition Date as shall be necessary in order that, after giving effect to all such assignments and purchases, such Revolving Loans will be held by Banks and New Banks ratably in accordance with their Commitments after giving effect to the addition of such New Commitments to the Commitments. The Administrative Agent shall notify the Banks promptly upon receipt of the Borrower's notice thereof of each Transition Date and in respect thereof the New Commitments, the New Banks and, in the case of each notice to any Bank, the respective interests in such Bank's Revolving Loans subject to the assignments contemplated by the immediately preceding sentence. In the event that any Bank shall incur any breakage cost as a result of making any such assignment, or that any New Bank shall incur any reverse breakage cost as a result of taking any such assignment, the Borrower shall indemnify it for such cost, calculated as contemplated by Section 2.15 in the case of breakage costs and calculated based upon the difference between the Eurodollar Rate applicable to each assigned Revolving Loan and the cost to the New Bank of funding its assigned interests in the case

of reverse breakage costs. It is expressly understood that no Bank shall have any obligation to agree to an increase in the amount of the Commitment pursuant to this Section.

SECTION 2.02. Loans. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Banks ratably in accordance with their Commitments. Each Auction Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Bank to make any Loan required to be made hereunder shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Loan required to be made by such other Bank). The Loans comprising each Borrowing shall be in an aggregate principal amount which is an integral multiple of \$1,000,000.

(b) Subject to Section 2.10, (i) each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03, and (ii) each Auction Borrowing shall be comprised entirely of Eurodollar Loans, Fixed Rate Loans or Delayed Fixed Rate Loans as the Borrower may request in accordance with Section 2.04. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement or any applicable Note. Borrowings of more than one Type or Class may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to paragraph (e) below, each Bank shall make a Revolving Loan in the amount of its pro rata portion, as determined under Section 2.16, or, if an Auction Loan, in the relevant amount as determined under Section 2.04, of each Borrowing hereunder on the proposed date

thereof by wire transfer of immediately available funds to the Agent in Houston, Texas, not later than 2:00 p.m., New York City time, and the Agent shall by 3:00 p.m., New York City time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Bank of America, N.A., Account Number 12332-29152; ABA # 12100358, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

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

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type or Class, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.05 or 2.12, as applicable, with the proceeds of a new

Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

SECTION 2.03. Notice of Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) (a) in the case of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, the day of a proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing prior to the end of the Interest Period in effect for such Borrowing, then the Borrower shall (unless such Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

SECTION 2.04. Auction Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Auction Bids and may (but shall not have any obligation to) accept Auction Bids and borrow Auction Loans; provided that the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans at any time shall not exceed the total Commitments.

To request Auction Bids, the Borrower shall notify the Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 1:00 p.m., New York City time, four Business Days before the date of the proposed Borrowing, in the case of a Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business Day before the date of the proposed Borrowing, or, in the case of a Delayed Fixed Rate Borrowing, not later than 2:00 p.m., New York City time, two Business Days before the date for the proposed Borrowing; provided that the Borrower may submit up to (but not more than) (i) 1 Eurodollar Auction Bid Request and (ii) 1 Fixed Rate Auction Bid Request or 1 Delayed Fixed Rate Auction Bid Request on the same day. Each such telephonic Auction Bid Request shall be confirmed promptly by hand delivery or telecopy to the Agent of a written Auction Bid Request in a form approved by the Agent and signed by the Borrower. Each such telephonic and written Auction Bid Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

(ii) the date of such Borrowing, which shall be a Business Day;

(iii) whether such Borrowing is to be a Eurodollar Borrowing, a Fixed Rate Borrowing, or a Delayed Fixed Rate Borrowing;

(iv) the Interest Period (or Interest Periods) to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.02.

(b) Following receipt of an Auction Bid Request in accordance with this Section, the Agent shall notify the Banks of the details thereof by telecopy, inviting the Banks to submit Auction Bids in the case of a Eurodollar Auction Bid Request, no later than 2:00 p.m., New York City time, four Business Days before the proposed date

of the Borrowing, in the case of a Fixed Rate Auction Bid Request, no later than 2:00 p.m., one Business Day before the proposed date of the Borrowing, and, in the case of a Delayed Fixed Rate Bid Request, not later than 3:00 p.m., New York City time, two Business Days before the proposed date of the Borrowing.

(c) Each Bank may (but shall not have any obligation to) make one or more Auction Bids to the Borrower in response to an Auction Bid Request. Each Auction Bid by a Bank must be in a form approved by the Agent and must be received by the Agent by telecopy, in the case of a Eurodollar Auction Borrowing, not later than 12:00 (noon), New York City time, three Business Days before the proposed date of such Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of such Auction Borrowing, and, in the case of a Delayed Fixed Rate Bid, not later than 12:00 (noon), New York City time, one Business Day before the proposed date of such Auction Borrowing. Auction Bids that do not conform substantially to the form approved by the Agent may be rejected by the Agent, and the Agent shall notify the applicable Bank as promptly as practicable. Each Auction Bid shall specify (i) the principal amount (which shall be an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Auction Borrowing requested by the Borrower) of the Auction Loan or Loans that the Bank is willing to make, (ii) the Auction Bid Rate or Rates at which the Bank is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof in accordance with the Auction Bid Request.

(d) The Agent shall promptly notify the Borrower by telecopy of the Auction Bid Rate and the principal amount specified in each Auction Bid and the identity of the Bank that shall have made such Auction Bid.

(e) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Auction Bid. The Borrower shall notify the Agent by telephone, confirmed by telecopy in a form approved by the Agent, whether and to what extent it has decided to accept or

reject each Auction Bid, in the case of a Eurodollar Auction Borrowing, not later than 2:00 p.m., New York City time, three Business Days before the date of the proposed Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 11:30 a.m., New York City time, on the proposed date of the Auction Borrowing, and, in the case of a Delayed Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business day before the date of the proposed Auction Borrowing; provided that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Auction Bid, (ii) the Borrower shall not accept an Auction Bid made at a particular Auction Bid Rate if the Borrower rejects an Auction Bid made at a lower Auction Bid Rate, (iii) the aggregate amount of the Auction Bids accepted by the Borrower shall not exceed the aggregate amount of the requested Auction Borrowing specified in the related Auction Bid Request, (iv) to the extent necessary to comply with clause (iii) above, the Borrower may accept Auction Bids at the same Auction Bid Rate in part, which acceptance, in the case of multiple Auction Bids at such Auction Bid Rate, shall be made pro rata in accordance with the amount of each such Auction Bid, and (v) except pursuant to clause (iv) above, no Auction Bid shall be accepted for an Auction Loan unless such Auction Loan is in an integral multiple of \$1,000,000. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(f) The Agent shall notify each bidding Bank by telephone and telecopy whether or not its Auction Bid has been accepted (and, if so, the amount and Auction Bid Rate so accepted) in the case of Eurodollar Auction Loans, by 3:00 p.m., New York City time, three Business Days before the borrowing date, in the case of Fixed Rate Loans, by 12:00 (noon), New York City time, on the borrowing date, and, in the case of Delayed Fixed Rate Loans, by 3:00 p.m., New York City time, one Business Day before the Borrowing Date. Each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Auction Loan in respect of which its Auction Bid has been accepted.

(g) If the Agent shall elect to submit an Auction Bid in its capacity as a Bank, it shall submit such Auction Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Banks are required

to submit their Auction Bids to the Agent pursuant to paragraph (b) of this Section.

SECTION 2.05. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay each Bank the then unpaid principal amount of each Loan of such Bank on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Loan shall bear interest on the outstanding principal balance thereof as set forth in Section 2.08.

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

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

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

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

Notes in such form payable to the order of the payee named therein (or, if such Note is a registered Note, to such payee and its registered assigns).

SECTION 2.06. Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Agent and the Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, the Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to the Issuing Bank and the Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed \$25,000,000 and (ii) the sum of the total Revolving Credit Exposure plus

the aggregate principal amount of outstanding Auction Loans shall not exceed the total Commitments.

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

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

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Agent an amount equal to such LC Disbursement not later than 12:00 (noon), New York City time, on (i) the Business Day that the Borrower receives notice of such LC Disbursement, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that, if such LC Disbursement is not less than \$1,000,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Revolving Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Agent shall notify each Bank of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Bank's Applicable Percentage thereof. Promptly following receipt of such notice, each Bank shall pay to the Agent its Applicable Percentage of the

payment then due from the Borrower, in the same manner as provided in Section 2.02 with respect to Loans made by such Bank (and Section 2.02 shall apply, mutatis mutandis, to the payment obligations of the Banks), and the Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Banks. Promptly following receipt by the Agent of any payment from the Borrower pursuant to this paragraph, the Agent shall distribute such payment to the Issuing Bank or, to the extent that Banks have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Banks and the Issuing Bank as their interests may appear. Any payment made by a Bank pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Agent, the Banks nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's gross negligence or wilful misconduct. The parties hereto expressly agree that, in the absence of gross negligence or wilful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of

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

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

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.09 shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Bank pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Bank to the extent of such payment.

(i) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Agent, at the request of the Required Banks, demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Agent, in the name of the Agent and for the benefit of the Banks, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (g) or (h) of Article VII. Such deposit shall be held by the Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any

interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

SECTION 2.07. Fees. (a) The Borrower agrees to pay to each Bank, through the Agent, on the first Business Day of January, April, July and October, in each year, and on the date on which the Commitment of such Bank shall be terminated as provided herein, a commitment fee (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be terminated); provided, that, for purposes of determining the Commitment Fee, the undrawn portion of the Commitments shall not be deemed to be reduced by the amount of any borrowing under the Auction Facility. The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Rate in effect on such day. All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as appropriate. The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided herein.

(b) The Borrower agrees to pay (i) to the Agent for the account of each Bank a participation fee with respect to its participations in Letters of Credit, which shall accrue at the Applicable Rate on the average daily amount of such Bank's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Bank's Commitment terminates and the date on which such Bank ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee for Letters of Credit, which shall accrue at the rate per annum of .125% on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the

period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the first Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 365 or 366 days, as appropriate and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Agent, for its own account, the fees separately agreed between the Agent and the Borrower (the "Agency Fees" and the "Structuring Fee").

(d) The Borrower agrees to pay the Agent, for its own account, \$100 for each Auction Bid Request the Borrower makes, payable the day on which the Auction Bid Request is made.

(e) For any day on which the outstanding principal amount of Loans and the LC Exposure shall be greater than 33% of the total Commitments (or, following the Expiration Date, 33% of the total Commitments on the Expiration Date), the Borrower shall pay to the Administrative Agent for the account of each Bank a utilization fee (a "Utilization Fee") at a rate per annum equal to the Applicable Rate in effect for such day on such Bank's Applicable Percentage of the aggregate amount of the outstanding Loans and the LC Exposure on such day. The Utilization Fees, if any, in respect of any fiscal quarter shall be payable in arrears on each March 31, June 30, September 30 and December 31, on the date on which the Commitments terminate and on any later date on which the Loans are repaid in full or on which the LC Exposure is terminated; provided, however, that if the Utilization Fee should be payable on a day other than a Business Day, such date of payment shall be extended to the next succeeding Business Day. All Utilization Fees shall be computed on the basis of a year of 365 or 366 days, as appropriate, and shall be payable for the actual number of days elapsed

(including the first day but excluding the last day).

(f) All Fees shall be paid on the dates due, in immediately available funds, to the Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.08. Interest on Loans. (a) Subject to the provisions of Section 2.09, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Subject to the provisions of Section 2.09, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) (i) in the case of a Eurodollar Revolving Loan at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate or (ii) in the case of a Eurodollar Auction Loan, at the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Margin applicable to such Loan.

(c) Each Fixed Rate Loan shall bear interest at the Fixed Rate applicable to such Loan. Each Delayed Fixed Rate Loan shall bear interest at the Delayed Fixed Rate applicable to such Loan.

(d) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.09. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date

of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Alternate Base Rate plus the Applicable Rate plus 2%.

SECTION 2.10. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Banks. In the event of any such determination, (i) any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing and (ii) any request by the Borrower for a Eurodollar Auction Borrowing shall be ineffective; provided that (A) if the circumstances giving rise to such notice do not affect all the Banks, then requests by Borrower for Eurodollar Auction Borrowings may be made to Banks that are not affected thereby and (B) if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted. Each determination by the Agent hereunder shall be conclusive absent manifest error.

SECTION 2.11. Termination, Reduction and Extension of Commitments.

(a) The Commitments shall be automatically terminated on the Expiration Date.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that (i) each

partial reduction of the Commitments shall be in an integral multiple of \$1,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.12, the sum of the Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans would exceed the total Commitments.

(c) Each reduction in the Commitments hereunder shall be made ratably among the Banks in accordance with their respective applicable Commitments. The Borrower shall pay to the Agent for the account of the Banks, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction.

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

SECTION 2.12. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of \$1,000,000, and that the Borrower shall not have the right to prepay any Auction Loan without the prior consent of the Bank thereof.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.11, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Revolving Credit Exposure plus the aggregate principal amount of Auction Loans outstanding will not exceed the aggregate Commitments after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the

amount stated therein on the date stated therein. All prepayments under this Section 2.12 shall be subject to Section 2.15 but otherwise without premium or penalty. All prepayments under this Section 2.12 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.13. Reserve Requirements; Change in Circumstances. (a)

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

(b) If any Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such

author ity, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement or the Loans made by such Bank pursuant hereto to a level below that which such Bank or such Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

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

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

SECTION 2.14. Change in Legality. (a) Notwithstanding any other provision herein, if any change in, or adoption of, any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Agent, such Bank may:

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

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

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

(b) For purposes of this Section 2.14, a notice to the Borrower by any Bank shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan.

SECTION 2.15. Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to refinance any Eurodollar Loan hereunder after irrevocable notice of such borrowing or refinancing has been given pursuant to Sections 2.03 and 2.04, (c) any payment or prepayment of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto or (d) any default in payment or prepayment of the principal amount of any Eurodollar Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) including, in each such case, any

loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by such Bank, of (i) its cost of obtaining the funds for the Eurodollar Loan being paid, prepaid, converted or not borrowed (assumed to be the Eurodollar Rate applicable thereto) for the period from the date of such payment, prepayment, conversion or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid or not borrowed for such period or Interest Period, as the case may be. A certificate of any Bank setting forth any amount or amounts which such Bank is entitled to receive pursuant to this Section, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.16. Pro Rata Treatment. Except as required under Sections 2.04 and 2.14, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Commitments and each refinancing of any Borrowing with a Borrowing of any Type shall be allocated pro rata among the Banks in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole dollar amount.

SECTION 2.17. Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest

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

SECTION 2.18. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or reimbursements of LC Disbursements or any Fees or other amounts) hereunder and under any other Loan

Document not later than 12:00 (noon), New York City time, on the date when due in dollars to the Agent at its offices at 909 Fanning, Suite 1700, Houston, Texas, in immediately available funds.

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

SECTION 2.19. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.18, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Agent, any Bank or the Issuing Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent, any Bank or the Issuing Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Agent, any such Bank or the Issuing Bank (or such Transferee) or the applicable lending office, is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks or the Issuing Bank (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.19) such Bank or the Issuing Bank (or such Transferee) or the Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be

entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to receive with respect to the rights assigned, participated or other wise transferred unless such assignment, participation or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist.

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

(c) The Borrower will indemnify each Bank (or Transferee), the Issuing Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or such Transferee), the Issuing Bank (or such Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank or the Issuing Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank or the Issuing Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.19, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank or the Issuing Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.19, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.19 with respect to such refund) within 30 days (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), net

of all reasonable out-of-pocket expenses of such Bank and without interest; provided that the Borrower, upon the request of such Bank or the Issuing Bank (or such Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank or the Issuing Bank (or such Transferee) or the Agent in the event such Bank or the Issuing Bank (or such Transferee) or the Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Bank or the Issuing Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential); provided that Borrower, at its expense, shall have the right to receive an opinion from a firm of independent public accountants of recognized national standing acceptable to the Borrower that the amount due hereunder is correctly calculated.

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

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.19 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Agent shall notify the Borrower of each Bank's or the Issuing Bank's (or Transferee's) address. On or prior to the Banks' or the Issuing Bank's (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank or the Issuing Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, deliver to the Borrower and the Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury

Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank or such Issuing Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank or such Issuing Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under any Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

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

SECTION 2.20. Termination or Assignment of Commitments Under Certain Circumstances. (a) Any Bank or the Issuing Bank (or Transferee) claiming any additional amounts payable pursuant to Section 2.13 or Section 2.19 or exercising its rights under Section 2.14 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Bank or such Issuing Bank, be otherwise disadvantageous to such Bank or such

Issuing Bank (or Transferee).

(b) In the event that any Bank shall have delivered a notice or certificate pursuant to Section 2.13 or 2.14, or the Borrower shall be required to make additional payments under Section 2.19 to any Bank or the Issuing Bank (or Transferee) or to the Agent with respect to any Bank or the Issuing Bank (or Transferee), the Borrower shall have the right, at its own expense, upon notice to such Bank or the Issuing Bank (or Transferee) and the Agent (and, if a Commitment is being assigned, the Issuing Bank), (a) to terminate the Commitment of such Bank or such Issuing Bank (or Transferee) or (b) to require such Bank or the Issuing Bank (or Transferee) to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all its interests, rights and obligations under this Agreement (other than any outstanding Auction Loans) to another financial institution which shall assume such obligations; provided that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the Borrower or the assignee, as the case may be, shall pay to the affected Bank or the Issuing Bank (or Transferee) in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder and, in the case of a termination or assignment by the Issuing Bank, shall cause all Letters of Credit to be surrendered for cancellation on or prior to the date of such termination or assignment.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

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

SECTION 3.01. Organization; Powers. Each of the Borrower and the Significant Subsidiaries (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, (c) is

qualified to do business in every jurisdiction where such qualification is required, except where the failure so to qualify would not result in a Material Adverse Effect, and (d) in the case of the Borrower, has the corporate power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated thereby to which it is or will be a party and to borrow hereunder.

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

hereafter acquired by the Borrower.

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

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

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 1999, audited by and accompanied by the opinion of Deloitte & Touche, independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, reflect all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof which are material on a consolidated basis. Such financial statements were prepared in accordance with GAAP applied (except as noted therein) on a consistent basis.

SECTION 3.06. No Material Adverse Change. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 and in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 1999, which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

SECTION 3.07. Litigation; Compliance with Laws. (a) Except as set forth in the Annual Report of the Borrower on Form 10-K for the year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

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

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

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

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

Holding Company Act of 1935.

SECTION 3.10. Use of Proceeds and Letters of Credit. The Borrower will use the proceeds of the Loans and the Letters of Credit only for the purposes specified in the preamble to this Agreement.

SECTION 3.11. No Material Misstatements. No information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent, the Issuing Bank or any Bank in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or, when considered together with all reports theretofore filed with the Securities and Exchange Commission, omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading.

SECTION 3.12. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than \$10,000,000 the value of the assets of such Plan.

SECTION 3.13. Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials,

toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and warranties set forth in this Section 3.13 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 and in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

SECTION 3.14. Significant Subsidiaries. Schedule 3.14 sets forth as of the date hereof a list of all Significant Subsidiaries of the Borrower and the percentage ownership interest of the Borrower therein.

ARTICLE IV. CONDITIONS OF LENDING

The obligations of the Banks to make Loans and of the Issuing Bank to issue, amend, renew, or extend Letters

of Credit, hereunder are subject to the satisfaction of the following conditions:

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

(a) The Agent shall have received a notice of such Borrowing as required by Section 2.03.

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

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

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

SECTION 4.02. First Borrowing. On the date of this Agreement:

(a) The Agent shall have received favorable written opinions of (i) Paine, Hamblen, Coffin, Brooke & Miller, counsel for the Borrower, and (ii) Thelen, Reid & Priest, special counsel to the Borrower, each dated the date of this Agreement and addressed to the Banks, to the effect set forth in Exhibits D-1 and D-2 hereto, and the Borrower hereby instructs such counsel to deliver such opinions to the Agent.

(b) The Agent shall have received evidence satisfactory to it and set forth on Schedule 4.02(b) that the Borrower shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions, in each case without the imposition of any condition which, in the judgment of the Banks, could adversely affect their rights or interests hereunder.

(c) All legal matters incident to this Agreement and the borrowings hereunder shall be satisfactory to the Banks and their counsel and to Cravath, Swaine & Moore, counsel for the Agent.

(d) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the

Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Banks or their counsel or Cravath, Swaine & Moore, counsel for the Agent, may reasonably request.

(e) The Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(f) The Agent shall have received all Fees and other amounts due and payable on or prior to the date of this Agreement, including all Fees accrued to the date hereof under the Pre-Restatement Credit Agreement, this Agreement or the fee schedule set forth in the invitation schedule and fee schedule dated May 12, 2000.

ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank and with the Issuing Bank that so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses, any LC Disbursement or amounts payable under any Loan Document shall be unpaid or any Letter of Credit remains outstanding, unless the Required Banks shall otherwise consent in writing, the Borrower will:

SECTION 5.01. Existence; Businesses and Proper ties. (a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.02.

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

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

self-insurance shall be comparable to that usually maintained by companies engaged in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and the reserves maintained with respect to such self-insured amounts are deemed adequate by the officer or officers of the Borrower responsible for insurance matters.

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

SECTION 5.04. Financial Statements, Reports, etc. Furnish to the Agent and each Bank:

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

(b) within 50 days after the end of each of the first three fiscal quarters of each fiscal year, its

consolidated and, to the extent otherwise available, consolidating balance sheets and related statements of income and statements of cash flow, showing the financial condition of the Borrower and its consolidated subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as fairly presenting the financial condition and results of operations of the Borrower on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under (a) or (b) above, a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

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

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

SECTION 5.05. Litigation and Other Notices.

Furnish to the Agent and each Bank prompt written notice of the following:

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

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

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

SECTION 5.06. ERISA. (a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to the Agent and each Bank (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding \$10,000,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) or to appoint a trustee to administer any Plan or Plans and (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together

with a copy of such notice given to the PBGC.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Bank to visit and inspect the financial records and the properties of the Borrower at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Bank to discuss the affairs, finances and condition of the Borrower with the chief financial officer of the Borrower, or other person designated by the chief financial officer, and independent accountants therefor.

SECTION 5.08. Use of Proceeds and Letters of Credit. Use the proceeds of the Loans and the Letters of Credit only for the purposes set forth in the preamble to this Agreement.

SECTION 5.09. Further Assurance. Pledge all the capital stock (including any warrants, options or other rights entitling the Borrower to purchase or acquire such capital stock) of Avista Capital, Inc. to the Agent for the benefit of the Banks by August 15, 2000. Such pledge shall be made pursuant to a pledge agreement in a form reasonably satisfactory to the Agent. Such pledge shall not restrict, limit or encumber the Borrower's ability to conduct any business activities of Avista Capital, Inc. or any of its affiliates (subject to any restrictions on Avista Capital, Inc. under this Agreement as a result of it being a Significant Subsidiary), including, but not limited to, its decisions related to disposition of assets in whole or in part, mergers, acquisitions, inter-company loans, dividends or other commitments.

ARTICLE VI. NEGATIVE COVENANTS

The Borrower covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan shall be unpaid, any LC Disbursement, any Fees or any other expenses or amounts payable under any Loan Document shall be unpaid or any Letter of Credit remains outstanding, unless the Required Banks shall otherwise consent in writing, the Borrower will not:

SECTION 6.01. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments;

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

(c) the Lien of the First Mortgage;

(d) Liens permitted under the First Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage) and any other Liens to which the Lien of the First Mortgage is expressly made subject;

(e) the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower; provided that, so long as the First Mortgage shall constitute a Lien on properties or assets of the Borrower, the bonds, notes or other obligations issued under the Collateral Trust Mortgage (i) shall also be secured by an equal principal amount of bonds issued under the First Mortgage or (ii) shall be issued against property additions not subject to the Lien of

the First Mortgage;

(f) Liens permitted under the Collateral Trust Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the Collateral Trust Mortgage) and any other Liens to which the Lien of the Collateral Trust Mortgage is subject;

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

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

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

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

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

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

for purposes of substations or transmission or distribution facilities;

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

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

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

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

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

(r) with respect to any property which the Borrower may hereafter acquire, any exceptions or reservations therefrom existing at the time of such acquisition or any terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in the deeds of other instruments,

respectively, under and by virtue of which the Borrower shall hereafter acquire the same, none of which materially impairs the use of such property for the purposes for which it is acquired by the Borrower;

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

(t) banker's Liens and other Liens in the nature of a right of setoff;

(u) Liens resulting from any transaction permitted under Section 6.03(v);

(v) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property (it being understood that such limitation does not apply to the Liens described in subsection (c), (e) or (u) above);

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

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

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

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

(aa) cash collateral contemplated under Section 2.06(i) and the pledge of Avista Capital, Inc. stock contemplated under Section 5.09 of this Agreement and under Section 5.09 of the \$140,000,000 Amended and Restated Credit Agreement dated as of June 26, 2000 among the Borrower, the banks named therein and

Toronto-Dominion (Texas), Inc., as agent; and

(ab) Liens not expressly permitted in clauses (a) through (aa) of this Section 6.01 to secure Indebtedness of the Borrower, provided that the aggregate outstanding principal amount of the Indebtedness so secured does not at any one time exceed 5% of the total assets of the Borrower and its Subsidiaries, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.02. Mergers, Consolidations and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's business, except that if (A) at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and (B) in the case of any merger or consolidation involving the Borrower in which the Borrower is not the surviving corporation, the surviving corporation shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, then (a) the Borrower may merge or consolidate with any Subsidiary in a transaction in which the Borrower is the surviving corporation, (b) the Borrower may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation, or in the case of a merger or consolidation in which the Borrower is

not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baal or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.03. Disposition of Assets. Sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or other dispositions permitted under clause (c) (ii) of the definition of Subsidiary Event in Article I (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (c) (ii) (A) through (C) in such definition), exceed 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (i) the Borrower may, in any fiscal year, sell, lease, transfer, assign or otherwise dispose of assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or other dispositions in the

ordinary course permitted under clause (c) (ii) (A) of the definition of Subsidiary Event in Article I, do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (ii) to the extent permitted under Section 5.03, 6.01 or Section 6.02, (iii) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interests in the Colstrip and Centralia Projects and related assets and (v) the Borrower may sell, lease, transfer, assign or otherwise dispose (including by way of capital contribution) of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein.

SECTION 6.04. Consolidated Total Debt to Consolidated Total Capitalization Ratio. Permit the ratio of Consolidated Total Debt to Consolidated Total Capitalization to be, at the end of any fiscal quarter, greater than 0.60 to 1.00 for the preceding twelve-month period, and to remain greater than 0.60 to 1.00 for a period of 30 days.

SECTION 6.05. Public Utility Regulatory Borrowing Limits. Incur actual borrowings or commitments or issued and outstanding debt of the Borrower in excess of the amount authorized (i) by statute without necessity of public utility commission approval and/or (ii) by orders of public utility commissions, as in effect from time to time.

SECTION 6.06. Guarantees. Incur Guarantees of or by the Borrower with respect to Avista Energy, Inc. in excess of \$50,000,000 in the aggregate or Guarantees of or by the Borrower with respect to Avista Energy, Inc. with a duration of one year or longer.

ARTICLE VII. EVENTS OF DEFAULT

In case of the happening (and during the

continuance) of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

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

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

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

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

(f) the Borrower or any Significant Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness when the aggregate unpaid principal amount is in excess of \$25,000,000, when and as the same shall

become due and payable (after expiration of any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement (after expiration of any applicable grace period) contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary; and such proceeding or petition shall continue undismissed, or an order or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days;

(h) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar

official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

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

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

the PBGC shall institute proceedings to terminate any Plan or Plans;

(k) there shall occur a Subsidiary Event; or

(l) a Change in Control shall occur;

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

ARTICLE VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Toronto Dominion (Texas), Inc. is hereby appointed to act as Agent on behalf of the Banks and the Issuing Bank. Each of the Banks and the Issuing Bank hereby irrevocably authorizes and directs the

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

Neither the Agent nor any of its directors, officers, employees or agents shall be liable to any Bank as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks and the Issuing Bank for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instrument to which reference is made herein. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any

responsibility to the Borrower on account of the failure or delay in performance or breach by any Bank or the Issuing Bank of any of its obligations hereunder or to any Bank or the Issuing Bank on account of the failure of or delay in performance or breach by any other Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or other affiliate thereof as if it were not the Agent.

Each Bank recognizes that applicable laws, rules, regulations or guidelines of governmental authorities may require the Agent to determine whether the transactions contemplated hereby should be classified as "highly lever aged" or assigned any similar or successor classification, and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Banks by the Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way

relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by the Borrower; provided, however, that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

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

The Agent may execute any of its duties under this Agreement by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or agent shall not release the Agent from its obligation to perform or cause to be performed the delegated duty.

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

ARTICLE IX. MISCELLANEOUS

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

(a) if to the Borrower, to it at East 1411 Mission Avenue (99202), P.O. Box 3727, Spokane, Washington 99220, Attention of the Senior Vice President and Chief Financial Officer (Telecopy No. 509-482-4879);

(b) if to the Agent, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951-9921);

(c) if to the Issuing Bank, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951- 0021); and

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

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

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties, including, without limitation, any indemnities and

reimbursement obligations, made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Banks and shall survive the making by the Banks of the Loans and issuance of any Letters of Credit, and the execution and delivery to the Banks of any Notes evidencing such Loans, regardless of any investigation made by the Banks, or on their behalf, or by the Issuing Bank and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not been terminated.

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank and the Issuing Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent, the Issuing Bank and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks and the Issuing Bank.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Agent, the Issuing Bank or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

(b) Each Bank (including the Agent when acting as a Bank) may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment and the same portion of the applicable Loan or Loans at the time owing to it other than any Auction Loans, which may, but need not, be

assigned); provided, however, that (i) except in the case of an assignment to a Bank or an Affiliate of such Bank, the Borrower and the Agent (and, in the case of an assignment of all or a portion of a Commitment or any Bank's obligation in respect of its LC Exposure, the Issuing Bank) must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.13, 2.14(a), 2.15 or 2.19 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, except that this clause (iii) shall not apply to rights in respect of outstanding Auction Loans, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$5,000,000 (or, if less, the total amount of their Commitments), (v) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance and a processing and recordation fee of \$5,000 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.13, 2.15, 2.19 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

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

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Upon the request of the assignee, the Borrower, at its own expense, shall execute and deliver to the Agent, a new Note or Notes to the order of such assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment, upon the request of the assigning bank, the Borrower shall execute and deliver a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower, the Issuing Bank or the Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it and any Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost

protection provisions contained in Sections 2.13, 2.15 and 2.19 to the same extent as if they were Banks (provided, that the amount of such benefit shall be limited to the amount in respect of the interest sold to which the seller of such participation would have been entitled had it not sold such interest) and (iv) the Borrower, the Agent, the Issuing Bank and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or changing or extending the Commitments).

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

(h) Notwithstanding anything to the contrary contained herein, any Bank (a "Granting Bank") may grant to a special purpose funding vehicle (an "SPC") the option to fund all or any part of any Loan that such Granting Bank would otherwise be obligated to fund pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to fund any Loan, and (ii) if an SPC elects not to exercise such option or otherwise fails to fund all or any part of such Loan, the Granting Bank shall be obligated to fund such Loan pursuant to the terms hereof. The funding of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent, and as

if, such Loan were funded by such Granting Bank. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or payment under this Agreement for which a Bank would otherwise be liable for so long as, and to the extent, the Granting Bank provides such indemnity or makes such payment. Notwithstanding anything to the contrary contained in this Agreement, any SPC may disclose on a confidential basis any non-public information relating to its funding of Loans to any rating agency, commercial paper dealer or provider of any surety or guarantee to such SPC. This paragraph may not be amended without the prior written consent of each Granting Bank, all or any part of whose Loan is being funded by an SPC at the time of such amendment.

(i) Any Bank may at any time assign for security purposes all or any portion of its rights under this Agreement and any Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

(j) Subject to Section 6.02, the Borrower shall not assign or delegate any of its rights or duties hereunder.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay (i) all reasonable out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or the Notes issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent, and, in connection with any such amendment, modification or waiver or any such enforcement or protection, the fees, charges and disbursements of any other internal or external counsel for the Agent, the Issuing Bank or any Bank and (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder. The Borrower further agrees that it shall indemnify the Banks from and hold them harmless

against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

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

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

SECTION 9.06. Right of Setoff. If an Event of

Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or bank Controlling such Bank) to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have. Any Bank shall provide the Borrower with written notice promptly after exercising its rights under this Section.

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

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

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to

an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or LC Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Bank affected thereby, (ii) change or extend the Commitment or decrease the Commitment Fees of any Bank without the prior written consent of such Bank, or (iii) amend or modify the provisions of Section 2.16, the provisions of this Section or the definition of "Required Banks", without the prior written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent or the Issuing Bank hereunder without the prior written consent of the Agent or the Issuing Bank, as the case may be. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

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

SECTION 9.10. Entire Agreement. This Agreement and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the

subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

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

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

SECTION 9.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to

be taken into consideration in interpreting, this Agreement.

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a)

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

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

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

WITNESS the due execution hereof as of the date first above

written.

AVISTA CORPORATION,

by

/s/ Ronald R. Peterson

Name: Ronald R. Peterson
Title: Vice President and
Treasurer

TORONTO DOMINION (TEXAS),
INC., as Agent,

by

/s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Vice President

THE BANK OF NEW YORK, as
Documentation Agent,

by /s/ Steven Kalachman

Name: Steven Kalachman
Title: Vice President

BANK OF AMERICA, N.A., as
Syndication Agent,

by /s/ Gary M. Tsuyuki

Name: Gary M. Tsuyuki
Title: Managing Director

TORONTO DOMINION (TEXAS), INC.,

by /s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Vice President

THE TORONTO-DOMINION BANK, as
Issuing Bank

by /s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Mgr. Cr. Admin.

THE BANK OF NEW YORK,

by /s/ Steven Kalachman

Name: Steven Kalachman
Title: Vice President

BANK OF AMERICA, N.A.,

by /s/ Gary M. Tsuyuki

Name: Gary M. Tsuyuki
Title: Managing Director

FIRST SECURITY BANK, N.A.,

by /s/ Brian W. Cook

Name: Brian W. Cook
Title:

FLEET NATIONAL BANK,

by /s/Suresh V. Chivukula

Name: Suresh V. Chivukula
Title: Senior Vice President

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK,

by /s/ Robert Bottamedi

Name: Robert Bottamedi
Title: Vice President

U.S. BANK, NATIONAL ASSOCIATION,

by /s/ Wilfred C. Jack

Name: Wilfred C. Jack
Title: Vice President

WELLS FARGO BANK, N.A.,

by

/s/ Tom Beil

Name: Tom Beil

Title: Vice President

[FORM OF]

NOTE

\$ _____
New York, New York

June 26, 2000

FOR VALUE RECEIVED, the undersigned, AVISTA CORPORATION, a Washington corporation (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of Toronto Dominion (Texas), Inc., (the "Agent"), at 909 Fanning, Suite 1700, Houston, Texas 77010, (i) on the last day of each Interest Period, as defined in the \$120,000,000 Amended and Restated Revolving Credit Agreement dated as of June 26, 2000 (the "Credit Agreement"), among the Borrower, the Banks named therein and the Agent, the aggregate unpaid principal amount of all Loans (as defined in the Credit Agreement) made to the Borrower by the Bank pursuant to the Credit Agreement to which such Interest Period applies and (ii) on the Expiration Date (as defined in the Credit Agreement) the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date hereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at the rate or rates per annum and payable on the dates provided in the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates provided in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates and maturity dates thereof shall be endorsed by

the holder hereof on the schedule attached hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not affect the obligations of the Borrower under this Note.

This Note is one of the Notes referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

AVISTA CORPORATION

by

Name:

Title:

Loans and Payments

Date	Amount and Type/Class of Loan	Maturity Date	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
			-----	-----		
			Principal	Interest		

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the \$120,000,000 Amended and Restated Credit Agreement dated as of June 26, 2000 (as in effect from time to time, the "Credit Agreement"), among Avista Corporation, a Washington corporation (the "Borrower"), the banks listed on Schedule 2.01 thereto (the "Banks") and Toronto Dominion (Texas), Inc., as agent for the Banks (in such capacity, the "Agent"). Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Effective Date and Revolving Loans [and Auction Loans] owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Revolving Loans [and Auction Loans] to the Effective Date, together with the participations in Letters of Credit and LC Disbursements held by the Assignor on the Effective Date, and the amount, if any, set forth on the reverse hereof of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being

delivered to the Agent together with (i) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.19(f) of the Credit Agreement, duly completed and executed by such Assignee, (ii) if the Assignee is not already a Bank under the Credit Agreement, an Administrative Questionnaire in the form of Exhibit C to the Credit Agreement and (iii) a processing and recordation fee of \$5,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment):

Facility -----	Principal Amount Assigned (and identifying information as to individual Auction Loans) -----	Percentage Assigned of Facility and Commitment Thereunder (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Banks thereunder) -----
Commitment Assigned:	\$	%
Revolving Loans:	\$	%
[Auction Loans: Fees Assigned (if any):	\$ \$	%] %

The terms set forth above and on the reverse side hereof are hereby agreed to:

_____, as Assignor

By: _____
Name:
Title:

_____, as
Assignee

By: _____
Name:

Accepted:

TORONTO DOMINION (TEXAS),
INC., as Agent

By: _____
Name:
Title:

Title:

AVISTA CORPORATION

By: _____
Name:
Title:

Administrative Questionnaire

Opinion of Counsel for the Borrower

Opinion of Special Counsel to the Borrower

SCHEDULE 2.01

Banks

Bank - ----	Commitment -----
Toronto Dominion (Texas), Inc. 909 Fanning Suite 1700 Houston, TX 77010 Attention: Ms. Kimberly Burleson Telecopy: (713) 951-9921 With copies to: Toronto Dominion Bank U.S.A. Division 31 West 52nd Street New York, NY 10019-6101 Attention: Mr. Peter Cody Telecopy: (212) 262-1929	\$18,450,000.00
Bank of America, N.A. 555 California Street 41st Floor San Francisco, CA 94104 Attention: Gary Tsuyuki Telecopy: (415) 622-0632	\$18,450,000.00

Bank - ----	Commitment -----
The Bank of New York One Wall Street New York, NY 10286	\$18,450,000.00
Attention: Ms. Trisha E. Hardy Telecopy: (212) 635-7923	
First Security Bank, N.A. 119 North 9th Street (83702) Boise, ID 83730	\$11,925,000.00
Attention: Mr. Brian Cook Telecopy: (509) 353-2472	
Fleet National Bank 100 Federal Street Boston, MA 02110	\$11,525,000.00
Attention: Leroy Gayle Telecopy: (617) 434-3652	
Morgan Guaranty Trust Company of New York 60 Wall Street New York, NY 10261	\$11,525,000.00
Attention: Mr. Robert Bottamedi Telecopy: (212) 640-5010	

U.S. Bank \$9,250,000.00
1420 Fifth Avenue
11th Floor
WWH276
Seattle, WA 98101

Attention: Mr. Wilfred C. Jack
Telecopy: (206) 344-3654

Wells Fargo Bank, National Association \$9,250,000.00
524 W. Riverside Avenue
8th Floor
Spokane, WA 99210

Attention: Mr. Tom Beil
Telecopy: (509) 455-5762

\$108,825,000.00

SCHEDULE 3.14

Significant Subsidiaries

Name -----	Percent Ownership -----
Avista Capital, Inc.	100%

SCHEDULE 4.02(b)

Statutes and Orders of Governmental Authorities

1. Statute of Washington authorizing borrowings of one year or less without approval and/or Order(s) of the Washington Utilities and Transportation Commission.
2. Statute of Oregon authorizing borrowings of one year or less without approval and/or Order(s) of the Oregon Public Utility Commission.
3. Statute of Idaho authorizing borrowings of one year or less without approval and/or Order(s) of the Idaho Public Utilities Commission.
4. Statute of California authorizing borrowings of one year or less without approval and/or Order(s) of the California Public Utilities Commission.

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

(\$140,000,000)

(364 DAY)

among

AVISTA CORPORATION,

THE BANKS NAMED HEREIN,

TORONTO DOMINION (TEXAS), INC.,

BANK OF AMERICA, N.A.

and

THE BANK OF NEW YORK

Dated as of June 26, 2000

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Exhibit D-2	Form of Opinion of Special Counsel for the Borrower

Schedule 2.01	Banks
Schedule 3.14	Significant Subsidiaries
Schedule 4.02(b)	Statutes and Orders of Governmental Authorities

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT dated as of June 26, 2000, among AVISTA CORPORATION, a Washington corporation (herein called the "Borrower"), the banks listed in Schedule 2.01 (the "Banks"), TORONTO DOMINION (TEXAS), INC., as agent for the Banks (in such capacity, the "Agent"), BANK OF AMERICA, N.A. (formerly known as "Bank of America National Trust and Savings Association"), as syndication agent (the "Syndication Agent") and THE BANK OF NEW YORK, as documentation agent (the "Documentation Agent").

Pursuant to the Pre-Restatement Credit Agreement (as defined herein), certain banks have extended credit to the Borrower. The Borrower has requested that the Pre-Restatement Credit Agreement be amended and restated in the form of this Agreement and that the Banks extend credit to the Borrower in order to enable the Borrower to borrow on a standby revolving credit basis on and after the date hereof, at any time prior to the Expiration Date (as defined herein) in a principal amount not in excess of \$121,175,000 at any time outstanding (subject to a possible increase to \$140,000,000, as provided in Section 2.01(b) below). The proceeds of such borrowings are to be used for general corporate purposes. In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

"Administrative Questionnaire" shall mean an

Administrative Questionnaire in the form of Exhibit C.

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

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

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

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

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

(a) Loan Spreads and Commitment Fee

Ratings	ABR Spread	Eurodollar Spread	Commitment Fee
Level 1 A- or higher by S&P; and A3 or higher by Moody's	0.00%	.625%	.10%
Level 2 BBB+ by S&P; and Baa1 by Moody's	0.00%	.75%	.125%
Level 3 BBB by S&P; and Baa2 by Moody's	0.00%	.875%	.15%
Level 4 BBB- by S&P; and Baa3 by Moody's	0.00%	1.00%	.20%
Level 5 BB+ by S&P; and Ba1 by Moody's	.25%	1.25%	.25%
Level 6 Lower than BB+ by S&P; and lower than Ba1 by Moody's	.50%	1.50%	.50%

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Rate shall be determined on such date by reference to the inferior (numerically higher) Level, unless the Ratings differ by more than one Level, in which case the applicable Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 5; and

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

(b) Utilization Fees

Utilization Level	Utilization Fee
Level 1 >.33 and less than/equal to .50	.15%
Level 2 >.50 and less than/equal to .75	.30%
Level 3 >.75	.50%

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

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

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

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

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

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

"Availability Period" shall mean the period from and including the Effective Date to but excluding the earlier of the Expiration Date and the date of the termination of the Commitments.

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

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

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

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

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of shares representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; provided, that no event described in clause (a) or clause (b) shall constitute a "Change in Control" if the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after giving effect to the transaction that would otherwise constitute a Change in Control.

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

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

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

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

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

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

clause (a)), (c) all obligations as lessee which, in accordance with GAAP, are capitalized as liabilities (including the current portion thereof), and (d) all other liabilities which would be classified as short-term debt in accordance with GAAP.

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

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

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

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

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

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

"Environmental Law" shall mean any and all applicable present and future treaties, laws, regulations,

enforceable requirements, binding determinations, orders, decrees, judgments, injunctions, permits, approvals, authorizations, licenses, permissions, notices or binding agreements issued, promulgated or entered by any Governmental Authority, relating to the environment, preservation or reclamation of natural resources, or to the management, release or threatened release of contaminants or noxious odor, including the Hazardous Materials Transportation Act, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and Hazardous and Solid Waste Amendments of 1984, Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, Clean Air Act of 1970, as amended, Toxic Substances Control Act of 1976, Occupational Safety and Health Act of 1970, as amended, Emergency Planning and Community Right-to-Know Act of 1986, Safe Drinking Water Act of 1974, as amended, and any similar or implementing state law, and all amendments or regulations promulgated thereunder.

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

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

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

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

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

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, an interest rate

per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the product of (i) the arithmetic average of rates at which dollar deposits approximately equal to the principal amount of the portion of such Eurodollar Loan to be made by The Toronto-Dominion Bank, and for a maturity equal to the applicable Interest Period, are offered to The Toronto-Dominion Bank for Eurodollars at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period and (ii) Statutory Reserves. In the event that such rate is not available at such time for any reason, then the "Eurodollar Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Agent in immediately available funds in the London interbank market at approximately 10:00 a.m., New York City time, two Business Days prior to the commencement of such Interest Period.

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

"Expiration Date" shall mean June 25, 2001.

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

"Fees" shall mean the Commitment Fee and the Agency Fees.

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

"First Mortgage" shall mean the Mortgage and Deed of Trust dated as of June 1, 1939, made by the Borrower in favor of Citibank, N.A., as successor Trustee, as the same

has been amended, modified or supplemented to date and as the same may be further amended, modified or supplemented from time to time hereafter.

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

"Fixed Rate Loan" shall mean an Auction Loan bearing interest at a Fixed Rate for which an Auction Bid Request is made on the day of the proposed borrowing.

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

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

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

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments, (c) all

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

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

"Interest Period" shall mean (a) as to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is 1, 2, 3 or 6 months thereafter, as the Borrower may elect, (b) as to any

ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Expiration Date, and (iii) the date such Borrowing shall be repaid or prepaid in accordance with Section 2.11 and (c) with respect to any Fixed Rate Borrowing or Delayed Fixed Rate Borrowing, the period (which shall not be less than 7 days or more than 360 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Auction Bid Request; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

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

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

"Loan Documents" shall mean this Agreement and any Notes.

"Margin" shall mean, with respect to any Auction Loan bearing interest at a rate based on the Eurodollar Rate, the marginal rate of interest, if any, to be added to or subtracted from the Eurodollar Rate to determine the rate of interest applicable to such Loan, as specified by the Bank making such Loan in its related Auction Bid.

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

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

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

"Notes" shall mean any promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans, as may be delivered pursuant to Section 2.05.

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

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

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

"Pre-Restatement Credit Agreement" shall mean the Amended and Restated Revolving Credit Agreement (364 day) among the Borrower, the banks named therein, Toronto Dominion (Texas), Inc., Bank of America National Trust and Savings Association and The Bank of New York, dated as of June 29, 1999, and as in effect prior to its amendment and restatement hereby.

"Prime Rate" shall mean the rate of interest per annum adopted from time to time by The Toronto-Dominion Bank at its principal office in New York City as its prime rate. For purposes of this Agreement, any change in the Alternate Base Rate due to a change in the Prime Rate shall be effective on the date such change in the Prime Rate is adopted.

"Ratings" shall refer to the ratings of Moody's and S&P applicable to the Borrower's senior unsecured long-term debt obligations.

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

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

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

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

"Related Parties" shall mean, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

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

"Required Banks" shall mean, at any time, Banks having Revolving Credit Exposures representing at least 66-2/3% of the aggregate Revolving Exposures or, if there shall be no Revolving Credit Exposure, Banks having Commitments representing at least 66-2/3% of the aggregate Commitments. For purposes of declaring the Loans to be due and payable pursuant to Article VII, and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Auction Loans of the Banks shall be included in their respective Revolving Credit Exposure in determining the Required Banks.

"Responsible Officer" of any corporation shall mean any executive officer or Financial Officer of such

corporation and any other officer or similar official thereof responsible for the administration of the obligations of such corporation in respect of this Agreement.

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

"Revolving Loan" shall mean a Loan made pursuant to Section 2.03.

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

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

"Statutory Reserves" shall mean a fraction (expressed as a decimal) the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages

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

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

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

"Subsidiary" shall mean a subsidiary of the Borrower.

A "Subsidiary Event" shall mean the following; provided, however, that a Subsidiary Event shall not be deemed to have occurred if the Banks have previously consented thereto:

(a) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement contained in Section 5.01(a) as if such section applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary;

(b) any Significant Subsidiary shall fail to observe or perform any covenant, condition or agreement in Sections 5.01(b), 5.02, 5.03 or 5.07 as if such sections applied to such Significant Subsidiary, with all references therein to the Borrower being deemed references to such Significant Subsidiary, and such default shall continue unremedied for a period of 30 days after notice thereof from the Agent or any Bank to the Borrower;

(c) any Significant Subsidiary shall:

(i) merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of such Significant Subsidiary's business, except that if, at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing, then (A) such Significant Subsidiary may (i) merge with or into, or consolidate with, any Subsidiary or (ii) merge with or into, or consolidate with, the Borrower in a transaction in which the Borrower is the surviving corporation, (B) such Significant Subsidiary may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (C) such Significant Subsidiary may merge with or into, or consolidate with, any other person so long as the assets of such person at the time of such consolidation or merger, do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such merger or

consolidation, computed and consolidated in accordance with GAAP consistently applied, and (D) such Significant Subsidiary may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as the assets being purchased, leased or acquired (or the Significant Subsidiary's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied, or

(ii) sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or dispositions by the Borrower permitted under Section 6.03 (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (i) through (iv) of such Section), are in excess of 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (A) a Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, in any fiscal year, assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or dispositions in the ordinary course permitted under Section 6.03(i), do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (B) to the extent permitted in clause (c)(i) above and (C) any Significant Subsidiary may sell, lease, transfer, assign or otherwise dispose of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein;

provided, however, that, notwithstanding anything in this clause (c) to the contrary, a Subsidiary Event shall not be deemed to have occurred and shall not constitute an Event of Default under paragraph (k) of Article VII if, after giving effect to the consummation of any transaction contemplated by clause (c) (i) or (c) (ii) hereof, such Significant Subsidiary shall have or shall be deemed to have a ratio of total long-term Indebtedness to total stockholders' equity equal to or less than 1.5 to 1.0.

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

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

"Utilization Fee" shall have the meaning assigned to such term in Section 2.06.

"Utilization Level" shall mean the ratio of the outstanding principal amount of Loans to the total Commitments.

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

Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.05.

ARTICLE II. THE CREDITS

SECTION 2.01. (a) Commitments. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make Revolving Loans to the Borrower, at any time and from time to time on or after the date of this Agreement, and until the earlier of the Expiration Date and the termination of the Commitment of such Bank in accordance with the terms hereof, in an aggregate principal amount at any time outstanding that will not result in (i) the Revolving Credit Exposure of any Bank exceeding the Commitment set forth opposite its name in Schedule 2.01 hereto, as the same may be reduced from time to time pursuant to Section 2.10 or (ii) the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans exceeding the total Commitments.

Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Revolving Loans on or after the date of this Agreement and prior to the Expiration Date, subject to the terms, conditions and limitations set forth herein.

(b) On not more than two occasions the Borrower may by written notice to the Administrative Agent cause New Banks (as defined below) to assume Commitments by an aggregate amount not in excess of \$18,825,000 in the aggregate (the "New Commitments"). Each such notice shall specify (i) the date (each a "Transition Date") on which the Borrower proposes that New Commitments shall become effective, which shall be not less than ten Business Days after the date on which such notice is delivered to the Administrative Agent and (ii) the identity of each person that has agreed to assume any portion of such New Commitments (each a "New Bank") and the amount of such New Commitments allocated to such New Bank. Subject only to

there not existing any Default or Event of Default on such Transition Date before or after giving effect to such New Commitments, such New Commitments shall become effective as of such Transition Date and, if any Revolving Loans are outstanding on such Transition Date, each Bank shall assign to the New Banks, and each of the New Banks shall purchase from the Banks, at the principal amount thereof, such interests in the Revolving Loans outstanding on such Transition Date as shall be necessary in order that, after giving effect to all such assignments and purchases, such Revolving Loans will be held by Banks and New Banks ratably in accordance with their Commitments after giving effect to the addition of such New Commitments to the Commitments. The Administrative Agent shall notify the Banks promptly upon receipt of the Borrower's notice thereof of each Transition Date and in respect thereof the New Commitments, the New Banks and, in the case of each notice to any Bank, the respective interests in such Bank's Revolving Loans subject to the assignments contemplated by the immediately preceding sentence. In the event that any Bank shall incur any breakage cost as a result of making any such assignment, or that any New Bank shall incur any reverse breakage cost as a result of taking any such assignment, the Borrower shall indemnify it for such cost, calculated as contemplated by Section 2.14 in the case of breakage costs and calculated based upon the difference between the Eurodollar Rate applicable to each assigned Revolving Loan and the cost to the New Bank of funding its assigned interests in the case of reverse breakage costs. It is expressly understood that no Bank shall have any obligation to agree to an increase in the amount of the Commitment pursuant to this Section.

SECTION 2.02. Loans. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Banks ratably in accordance with their Commitments. Each Auction Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Bank to make any Loan required to be made hereunder shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Loan required to be made by such other Bank). The Loans comprising each Borrowing shall be in an aggregate principal amount which is an integral multiple of \$1,000,000.

(b) Subject to Section 2.09, (i) each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03, and (ii) each Auction Borrowing shall be comprised entirely of Eurodollar Loans, Fixed Rate Loans or Delayed Fixed Rate Loans as the Borrower may request in accordance with Section 2.04. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement or any applicable Note. Borrowings of more than one Type or Class may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to paragraph (e) below, each Bank shall make a Revolving Loan in the amount of its pro rata portion, as determined under Section 2.15, or, if an Auction Loan, in the relevant amount as determined under Section 2.04, of each Borrowing hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Houston, Texas, not later than 2:00 p.m., New York City time, and the Agent shall by 3:00 p.m., New York City time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Bank of America, N.A., Account Number 12332-29152; ABA # 12100358, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c)

and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

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

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type or Class, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.05 or 2.11, as applicable, with the proceeds of a new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

SECTION 2.03. Notice of Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall give the Agent written or telecopy notice (or telephone notice promptly confirmed in writing or by telecopy) (a) in the case of a Eurodollar Borrowing, not later than 10:00 a.m., New York City time, three Business Days before a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, the day of a proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such

Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing prior to the end of the Interest Period in effect for such Borrowing, then the Borrower shall (unless such Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

SECTION 2.04. Auction Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Auction Bids and may (but shall not have any obligation to) accept Auction Bids and borrow Auction Loans; provided that the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans at any time shall not exceed the total Commitments. To request Auction Bids, the Borrower shall notify the Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 1:00 p.m., New York City time, four Business Days before the date of the proposed Borrowing, in the case of a Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business Day before the date of the proposed Borrowing, or, in the case of a Delayed Fixed Rate Borrowing, not later than 2:00 p.m., New York City time, two Business Days before the date for the proposed Borrowing; provided that the Borrower may submit up to (but not more than) (i) 1 Eurodollar Auction Bid Request and (ii) 1 Fixed Rate Auction Bid Request or 1 Delayed Fixed Rate Auction Bid Request on the same day. Each such telephonic Auction Bid Request shall be confirmed promptly by hand delivery or telecopy to the Agent of a written Auction Bid Request in a form approved by the Agent and signed by the Borrower. Each such telephonic and written

Auction Bid Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be a Eurodollar Borrowing, a Fixed Rate Borrowing, or a Delayed Fixed Rate Borrowing;
- (iv) the Interest Period (or Interest Periods) to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.02.

(b) Following receipt of an Auction Bid Request in accordance with this Section, the Agent shall notify the Banks of the details thereof by telecopy, inviting the Banks to submit Auction Bids in the case of a Eurodollar Auction Bid Request, no later than 2:00 p.m., New York City time, four Business Days before the proposed date of the Borrowing, in the case of a Fixed Rate Auction Bid Request, no later than 2:00 p.m., one Business Day before the proposed date of the Borrowing, and, in the case of a Delayed Fixed Rate Bid Request, not later than 3:00 p.m., New York City time, two Business Days before the proposed date of the Borrowing.

(c) Each Bank may (but shall not have any obligation to) make one or more Auction Bids to the Borrower in response to an Auction Bid Request. Each Auction Bid by a Bank must be in a form approved by the Agent and must be received by the Agent by telecopy, in the case of a Eurodollar Auction Borrowing, not later than 12:00 (noon), New York City time, three Business Days before the proposed date of such Auction Borrowing, in the

case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of such Auction Borrowing, and, in the case of a Delayed Fixed Rate Bid, not later than 12:00 (noon), New York City time, one Business Day before the proposed date of such Auction Borrowing. Auction Bids that do not conform substantially to the form approved by the Agent may be rejected by the Agent, and the Agent shall notify the applicable Bank as promptly as practicable. Each Auction Bid shall specify (i) the principal amount (which shall be an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Auction Borrowing requested by the Borrower) of the Auction Loan or Loans that the Bank is willing to make, (ii) the Auction Bid Rate or Rates at which the Bank is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof in accordance with the Auction Bid Request.

(d) The Agent shall promptly notify the Borrower by telecopy of the Auction Bid Rate and the principal amount specified in each Auction Bid and the identity of the Bank that shall have made such Auction Bid.

(e) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Auction Bid. The Borrower shall notify the Agent by telephone, confirmed by telecopy in a form approved by the Agent, whether and to what extent it has decided to accept or reject each Auction Bid, in the case of a Eurodollar Auction Borrowing, not later than 2:00 p.m., New York City time, three Business Days before the date of the proposed Auction Borrowing, in the case of a Fixed Rate Borrowing, not later than 11:30 a.m., New York City time, on the proposed date of the Auction Borrowing, and, in the case of a Delayed Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business day before the date of the proposed Auction Borrowing; provided that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Auction Bid, (ii) the Borrower shall not accept an Auction Bid made at a particular Auction Bid Rate if the Borrower rejects an Auction Bid made at a lower Auction Bid Rate, (iii) the aggregate amount of the Auction Bids accepted by the Borrower shall not exceed the aggregate amount of the requested Auction Borrowing specified in the related Auction Bid Request, (iv) to the extent necessary to

comply with clause (iii) above, the Borrower may accept Auction Bids at the same Auction Bid Rate in part, which acceptance, in the case of multiple Auction Bids at such Auction Bid Rate, shall be made pro rata in accordance with the amount of each such Auction Bid, and (v) except pursuant to clause (iv) above, no Auction Bid shall be accepted for an Auction Loan unless such Auction Loan is in an integral multiple of \$1,000,000. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(f) The Agent shall notify each bidding Bank by telephone and telecopy whether or not its Auction Bid has been accepted (and, if so, the amount and Auction Bid Rate so accepted) in the case of Eurodollar Auction Loans, by 3:00 p.m., New York City time, three Business Days before the borrowing date, in the case of Fixed Rate Loans, by 12:00 (noon), New York City time, on the borrowing date, and, in the case of Delayed Fixed Rate Loans, by 3:00 p.m., New York City time, one Business Day before the Borrowing Date. Each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Auction Loan in respect of which its Auction Bid has been accepted.

(g) If the Agent shall elect to submit an Auction Bid in its capacity as a Bank, it shall submit such Auction Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Banks are required to submit their Auction Bids to the Agent pursuant to paragraph (b) of this Section.

SECTION 2.05. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay each Bank the then unpaid principal amount of each Loan of such Bank on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Loan shall bear interest on the outstanding principal balance thereof as set forth in Section 2.07.

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

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

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

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

SECTION 2.06. Fees. (a) The Borrower agrees to pay to each Bank, through the Agent, on the first Business Day of January, April, July and October, in each year, and on the date on which the Commitment of such Bank shall be terminated as provided herein, a commitment fee (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be terminated); provided, that, for purposes of determining the Commitment Fee, the undrawn portion of the Commitments shall not be deemed to be reduced by the amount of any borrowing under the Auction Facility.

The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Rate in effect on such day. All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as appropriate. The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided herein.

(b) The Borrower agrees to pay to the Agent, for its own account, the fees separately agreed between the Agent and the Borrower, at the times agreed to (the "Agency Fees" and the "Structuring Fee").

(c) For any day on which the outstanding principal amount of Loans shall be greater than 33% of the total Commitments (or, following the Expiration Date, 33% of the total Commitments on the Expiration Date), the Borrower shall pay to the Administrative Agent for the account of each Bank a utilization fee (a "Utilization Fee") at a rate per annum equal to the Applicable Rate in effect for such day on such Bank's Applicable Percentage of the aggregate amount of the outstanding Loans on such day. The Utilization Fees, if any, in respect of any fiscal quarter shall be payable in arrears on each March 31, June 30, September 30 and December 31, on the date on which the Commitments terminate and on any later date on which the Loans are repaid in full; provided, however, that if the Utilization Fee should be payable on a day other than a Business Day, such date of payment shall be extended to the next succeeding Business Day. All Utilization Fees shall be computed on the basis of a year of 365 or 366 days, as appropriate, and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(d) The Borrower agrees to pay the Agent, for its own account, \$100 for each Auction Bid Request the Borrower makes, payable the day on which the Auction Bid Request is made.

(e) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.07. Interest on Loans. (a) Subject to the provisions of Section 2.08, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Subject to the provisions of Section 2.08, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) (i) in the case of a Eurodollar Revolving Loan at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate or (ii) in the case of a Eurodollar Auction Loan, at the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Margin applicable to such Loan.

(c) Each Fixed Rate Loan shall bear interest at the Fixed Rate applicable to such Loan. Each Delayed Fixed Rate Loan shall bear interest at the Delayed Fixed Rate applicable to such Loan.

(d) Interest on each Loan shall be payable on the Interest Payment Dates applicable to such Loan except as otherwise provided in this Agreement. The applicable Alternate Base Rate or Eurodollar Rate for each Interest Period or day within an Interest Period, as the case may be, shall be determined by the Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.08. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Alternate Base Rate plus the Applicable Rate plus 2%.

SECTION 2.09. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business

Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written or telecopy notice of such determination to the Borrower and the Banks. In the event of any such determination, (i) any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing and (ii) any request by the Borrower for a Eurodollar Auction Borrowing shall be ineffective; provided that (A) if the circumstances giving rise to such notice do not affect all the Banks, then requests by Borrower for Eurodollar Auction Borrowings may be made to Banks that are not affected thereby and (B) if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted. Each determination by the Agent hereunder shall be conclusive absent manifest error.

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

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an integral multiple of \$1,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans would exceed the total Commitments.

(c) Each reduction in the Commitments hereunder shall be made ratably among the Banks in accordance with their respective applicable Commitments. The Borrower shall pay to the Agent for the account of the Banks, on the date of each termination or reduction, the Commitment Fees on the amount of the Commitments so terminated or reduced accrued through the date of such termination or reduction.

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

SECTION 2.11. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of \$1,000,000, and that the Borrower shall not have the right to prepay any Auction Loan without the prior consent of the Bank thereof.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.10, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Revolving Credit Exposure plus the aggregate principal amount of Auction Loans outstanding will not exceed the aggregate Commitments after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.11 shall be subject to Section 2.14 but otherwise without premium or penalty. All prepayments under this Section 2.11 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.12. Reserve Requirements; Change in Circumstances. (a)

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

(b) If any Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement or the Loans made by such Bank pursuant hereto to a level below that which such Bank or such Bank's holding company could

have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

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

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

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

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

withdrawn; and

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

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

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

SECTION 2.14. Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to refinance any Eurodollar Loan hereunder after irrevocable notice of such borrowing or refinancing has been given pursuant to Sections 2.03 and 2.04, (c) any payment or prepayment of a Eurodollar Loan required by any other provision of this Agreement or otherwise made or deemed made on a date other than the last day of the Interest Period applicable thereto or (d) any default in payment or prepayment of the principal amount of any Eurodollar Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, whether by scheduled maturity, acceleration, irrevocable notice of prepayment or otherwise) including, in each such case, any loss or reasonable expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to effect or maintain such Loan or any part thereof as a Eurodollar Loan. Such loss or reasonable expense shall include an amount equal to the excess, if any, as reasonably determined by such Bank, of

(i) its cost of obtaining the funds for the Eurodollar Loan being paid, prepaid, converted or not borrowed (assumed to be the Eurodollar Rate applicable thereto) for the period from the date of such payment, prepayment, conversion or failure to borrow to the last day of the Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Eurodollar Loan which would have commenced on the date of such failure) over (ii) the amount of interest (as reasonably determined by such Bank) that would be realized by such Bank in reemploying the funds so paid, prepaid or not borrowed for such period or Interest Period, as the case may be. A certificate of any Bank setting forth any amount or amounts which such Bank is entitled to receive pursuant to this Section, and the manner in which such Bank has determined the same, shall be delivered to the Borrower and shall be conclusive absent manifest error.

SECTION 2.15. Pro Rata Treatment. Except as required under Sections 2.04 and 2.13, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Commitments and each refinancing of any Borrowing with a Borrowing of any Type shall be allocated pro rata among the Banks in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole dollar amount.

SECTION 2.16. Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Revolving Loan or Revolving Loans as a result of which the unpaid principal portion of its Revolving Loans shall be

proportionately less than the unpaid principal portion of the Revolving Loans of any other Bank, it shall be deemed simultaneously to have purchased from such other Bank at face value, and shall promptly pay to such other Bank the purchase price for, a participation in the Revolving Loans of such other Bank, so that the aggregate unpaid principal amount of the Revolving Loans and participations in Revolving Loans held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Revolving Loans then outstanding as the principal amount of its Revolving Loans prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Revolving Loans outstanding prior to such exercise of banker's lien, setoff or counter-claim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Revolving Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Bank by reason thereof as fully as if such Bank had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.17. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in dollars to the Agent at its offices at 909 Fanning, Suite 1700, Houston, Texas, in immediately available funds.

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

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

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

(c) The Borrower will indemnify each Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or such Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.18 with respect to such refund) within 30 days (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), net of all reasonable out-of-pocket expenses of such Bank and without interest; provided that the Borrower, upon the request of such Bank (or such Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank (or such Transferee) or the Agent in the event such Bank (or such Transferee) or the Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential); provided that Borrower, at its expense, shall have the right to receive an opinion from a firm of independent public accountants of recognized national standing acceptable to the Borrower that the amount due hereunder is correctly calculated.

(d) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect

of any payment to any Bank (or Transferee) or the Agent, the Borrower will furnish to the Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

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

(f) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Agent shall notify the Borrower of each Bank's (or Transferee's) address. On or prior to the Bank's (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, deliver to the Borrower and the Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under any Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

(g) The Borrower shall not be required to pay any additional amounts to any Bank (or Transferee) in respect of United States Federal withholding tax pursuant to

paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Bank (or Transferee) to comply with the provisions of paragraph (f) above; provided, however, that the Borrower shall be required to pay those amounts to any Bank (or Transferee) that it was required to pay hereunder prior to the failure of such Bank (or Transferee) to comply with the provisions of such paragraph (f).

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

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

it hereunder and all other amounts accrued for its account or owed to it hereunder.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

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

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

SECTION 3.02. Authorization. The execution, delivery and performance by the Borrower of each of the Loan Documents and the borrowings hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation the violation of which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Significant Subsidiary, (B) any order of any Governmental Authority the violation of which could reasonably be expected to impair the validity or enforce ability of this Agreement or any other Loan Document, or materially impair the rights of or benefits available to the Banks under the Loan Documents, or (C) any provision of any indenture or other material agreement or instrument evidencing or relating to borrowed money to which the

Borrower or any Significant Subsidiary is a party or by which any of them or any of their property is or may be bound in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents or (iii) result in the creation or imposition under any such indenture, agreement or other instrument of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower.

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

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

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 1999, audited by and accompanied by the opinion of Deloitte & Touche, independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, reflect all liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the dates thereof which are material on a

consolidated basis. Such financial statements were prepared in accordance with GAAP applied (except as noted therein) on a consistent basis.

SECTION 3.06. No Material Adverse Change. Except as disclosed in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 and in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 1999, which could reasonably be expected to have a material adverse effect on the creditworthiness of the Borrower.

SECTION 3.07. Litigation; Compliance with Laws. (a) Except as set forth in the Annual Report of the Borrower on Form 10-K for the year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

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

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

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

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

SECTION 3.10. Use of Proceeds. The Borrower will use the proceeds of the Loans only for the purposes specified in the preamble to this Agreement.

SECTION 3.11. No Material Misstatements. No information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of any Loan Document or included therein or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or, when considered together with all reports theretofore filed with the Securities and Exchange Commission, omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading.

SECTION 3.12. Employee Benefit Plans. Each of the Borrower and its ERISA Affiliates is in compliance in all material respects with the applicable provisions of ERISA and the regulations and published interpretations thereunder. No Reportable Event has occurred as to which the Borrower or any ERISA Affiliate was required to file a report with the PBGC, and the present value of all benefit liabilities under each Plan (based on those assumptions used to fund such Plan) did not, as of the last annual valuation date applicable thereto, exceed by more than \$10,000,000 the

value of the assets of such Plan.

SECTION 3.13. Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and warranties set forth in this Section 3.13 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 and in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2000 or in any document filed prior to the date of this Agreement pursuant to

Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934 shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

SECTION 3.14. Significant Subsidiaries. Schedule 3.14 sets forth as of the date hereof a list of all Significant Subsidiaries of the Borrower and the percentage ownership interest of the Borrower therein.

ARTICLE IV. CONDITIONS OF LENDING

The obligations of the Banks to make Loans hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. All Borrowings. On the date of each Borrowing, including each Borrowing in which Loans are refinanced with new Loans as contemplated by Section 2.02(e):

(a) The Agent shall have received a notice of such Borrowing as required by Section 2.03.

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

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

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date of

such Borrowing as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

SECTION 4.02. First Borrowing. On the date of this Agreement:

(a) The Agent shall have received favorable written opinions of (i) Paine, Hamblen, Coffin, Brooke & Miller, counsel for the Borrower, and (ii) Thelen, Reid & Priest, special counsel to the Borrower, each dated the date of this Agreement and addressed to the Banks, to the effect set forth in Exhibits D-1 and D-2 hereto, and the Borrower hereby instructs such counsel to deliver such opinions to the Agent.

(b) The Agent shall have received evidence satisfactory to it and set forth on Schedule 4.02(b) that the Borrower shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions, in each case without the imposition of any condition which, in the judgment of the Banks, could adversely affect their rights or interests hereunder.

(c) All legal matters incident to this Agreement and the borrowings hereunder shall be satisfactory to the Banks and their counsel and to Cravath, Swaine & Moore, counsel for the Agent.

(d) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of the Borrower

authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Banks or their counsel or Cravath, Swaine & Moore, counsel for the Agent, may reasonably request.

(e) The Agent shall have received a certificate, dated the Closing Date and signed by a Financial Officer of the Borrower, confirming compliance with the conditions precedent set forth in paragraphs (b) and (c) of Section 4.01.

(f) The Agent shall have received all Fees and other amounts due and payable on or prior to the date of this Agreement, including all Fees accrued to the date hereof under the Pre-Restatement Credit Agreement, this Agreement or the fee schedule set forth in the invitation schedule and fee schedule dated May 12, 2000.

ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank that so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses or any amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in writing, the Borrower will:

SECTION 5.01. Existence; Businesses and Proper ties. (a) Do or cause to be done all things

necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 6.02.

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

SECTION 5.02. Insurance. (a) Maintain insurance, to such extent and against such risks, as is customary with companies in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and (b) maintain such other insurance as may be required by law. All insurance required by this

Section 5.02 shall be maintained with financially sound and reputable insurers or through self-insurance; provided, however, that the portion of such insurance constituting self-insurance shall be comparable to that usually maintained by companies engaged in the same or similar businesses and owning similar properties in the same general area in which the Borrower operates and the reserves maintained with respect to such self-insured amounts are deemed adequate by the officer or officers of the Borrower responsible for insurance matters.

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

SECTION 5.04. Financial Statements, Reports, etc. Furnish to the Agent and each Bank:

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

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

(c) concurrently with any delivery of financial statements under (a) or (b) above, a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto;

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

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

reasonably request.

SECTION 5.05. Litigation and Other Notices. Furnish to the Agent and each Bank prompt written notice of the following:

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

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

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

SECTION 5.06. ERISA. (a) Comply in all material respects with the applicable provisions of ERISA and (b) furnish to the Agent and each Bank (i) as soon as possible, and in any event within 30 days after any Responsible Officer of the Borrower or any ERISA Affiliate either knows or has reason to know that any Reportable Event has occurred that alone or together with any other Reportable Event could reasonably be expected to result in liability of the Borrower to the PBGC in an aggregate amount exceeding \$10,000,000, a statement of a Financial Officer setting forth details as to such Reportable Event and the action proposed to be taken with respect thereto, together with a copy of the notice, if any, of such Reportable Event given to the PBGC, (ii) promptly after receipt thereof, a copy of any notice the Borrower or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or Plans (other than a Plan maintained by an ERISA Affiliate which is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code) or to appoint a trustee to administer any Plan or Plans and (iii) within 10 days after the due date for filing with the PBGC pursuant to Section 412(n) of the Code of a notice of failure to make a required installment or other

payment with respect to a Plan, a statement of a Financial Officer setting forth details as to such failure and the action proposed to be taken with respect thereto, together with a copy of such notice given to the PBGC.

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Bank to visit and inspect the financial records and the properties of the Borrower at reasonable times and as often as requested and to make extracts from and copies of such financial records, and permit any representatives designated by any Bank to discuss the affairs, finances and condition of the Borrower with the chief financial officer of the Borrower, or other person designated by the chief financial officer, and independent accountants therefor.

SECTION 5.08. Use of Proceeds. Use the proceeds of the Loans only for the purposes set forth in the preamble to this Agreement.

SECTION 5.09. Further Assurance. Pledge all the capital stock (including any warrants, options or other rights entitling the Borrower to purchase or acquire such capital stock) of Avista Capital, Inc. to the Agent for the benefit of the Banks by August 15, 2000. Such pledge shall be made pursuant to a pledge agreement in a form reasonably satisfactory to the Agent. Such pledge shall not restrict, limit or encumber the Borrower's ability to conduct any business activities of Avista Capital, Inc. or any of its affiliates (subject to any restrictions on Avista Capital, Inc. under this Agreement as a result of it being a Significant Subsidiary), including, but not limited to, its decisions related to disposition of assets in whole or in part, mergers, acquisitions, inter-company loans, dividends or other commitments.

ARTICLE VI. NEGATIVE COVENANTS

The Borrower covenants and agrees with each Bank that, so long as this Agreement shall remain in effect or the principal of or interest on any Loan, any Fees or any other expenses or amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in

writing, the Borrower will not:

SECTION 6.01. Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person, including any Subsidiary) now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except:

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments;

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

(c) the Lien of the First Mortgage;

(d) Liens permitted under the First Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage) and any other Liens to which the Lien of the First Mortgage is expressly made subject;

(e) the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower; provided that, so long as the First Mortgage shall constitute a Lien on properties or assets of the Borrower, the bonds, notes or other obligations issued under the Collateral Trust Mortgage (i) shall also be secured by an equal principal amount of bonds issued

under the First Mortgage or (ii) shall be issued against property additions not subject to the Lien of the First Mortgage;

(f) Liens permitted under the Collateral Trust Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the Collateral Trust Mortgage) and any other Liens to which the Lien of the Collateral Trust Mortgage is subject;

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

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

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

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

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

(l) Liens (i) which secure obligations not assumed by the Borrower, (ii) on account of which the Borrower has not and does not expect to pay interest directly or indirectly and (iii) which exist upon real estate or

rights in or relating to real estate in respect of which the Borrower has a right-of-way or other easement for purposes of substations or transmission or distribution facilities;

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

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

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

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

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

(r) with respect to any property which the Borrower may hereafter acquire, any exceptions or reservations therefrom existing at the time of such acquisition or any terms, conditions, agreements,

covenants, exceptions and reservations expressed or provided in the deeds of other instruments, respectively, under and by virtue of which the Borrower shall hereafter acquire the same, none of which materially impairs the use of such property for the purposes for which it is acquired by the Borrower;

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

(t) banker's Liens and other Liens in the nature of a right of setoff;

(u) Liens resulting from any transaction permitted under Section 6.03(v);

(v) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property (it being understood that such limitation does not apply to the Liens described in subsection (c), (e) or (u) above);

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

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

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

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

(aa) cash collateral contemplated under Section 2.06(i) and the pledge of Avista Capital, Inc. stock contemplated under Section 5.09 of this Agreement and under Section 5.09 of the \$120,000,000 Amended and

Restated Credit Agreement dated as of June 26, 2000 among the Borrower, the banks named therein and Toronto-Dominion (Texas), Inc., as agent; and

(ab) Liens not expressly permitted in clauses (a) through (aa) of this Section 6.01 to secure Indebtedness of the Borrower, provided that the aggregate outstanding principal amount of the Indebtedness so secured does not at any one time exceed 5% of the total assets of the Borrower and its Subsidiaries, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.02. Mergers, Consolidations and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's business, except that if (A) at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and (B) in the case of any merger or consolidation involving the Borrower in which the Borrower is not the surviving corporation, the surviving corporation shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, then (a) the Borrower may merge or consolidate with any Subsidiary in a transaction in which the Borrower is the surviving corporation, (b) the Borrower may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary, (c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's

immediately after such merger or consolidation, or in the case of a merger or consolidation in which the Borrower is not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baal or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.03. Disposition of Assets. Sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or other dispositions permitted under clause (c)(ii) of the definition of Subsidiary Event in Article I (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (c)(ii) (A) through (C) in such definition), exceed 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (i) the Borrower may, in any fiscal year, sell, lease, transfer, assign or otherwise dispose of assets in the ordinary course of

business which, together with the amount of all sales, leases, transfers, assignments or other dispositions in the ordinary course permitted under clause (c) (ii) (A) of the definition of Subsidiary Event in Article I, do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (ii) to the extent permitted under Section 5.03, 6.01 or Section 6.02, (iii) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interests in the Colstrip and Centralia Projects and related assets and (v) the Borrower may sell, lease, transfer, assign or otherwise dispose (including by way of capital contribution) of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein.

SECTION 6.04. Consolidated Total Debt to Consolidated Total Capitalization Ratio. Permit the ratio of Consolidated Total Debt to Consolidated Total Capitalization to be, at the end of any fiscal quarter, greater than 0.60 to 1.00 for the preceding twelve-month period, and to remain greater than 0.60 to 1.00 for a period of 30 days.

SECTION 6.05. Public Utility Regulatory Borrowing Limits. Incur actual borrowings or commitments or issued and outstanding debt of the Borrower in excess of the amount authorized (i) by statute without necessity of public utility commission approval and/or (ii) by orders of public utility commissions, as in effect from time to time.

SECTION 6.06. Guarantees. Incur Guarantees of or by the Borrower with respect to Avista Energy, Inc. in excess of \$50,000,000 in the aggregate or Guarantees of or by the Borrower with respect to Avista Energy, Inc. with a duration of one year or longer.

ARTICLE VII. EVENTS OF DEFAULT

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

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

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

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

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

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

(f) the Borrower or any Significant Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness when the aggregate unpaid principal amount

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

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary; and such proceeding or petition shall continue undismissed, or an order or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days;

(h) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or consent to the appointment of a receiver, trustee,

custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

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

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

District Court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans;

(k) there shall occur a Subsidiary Event; or

(l) a Change in Control shall occur;

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

ARTICLE VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Toronto Dominion (Texas), Inc. is hereby appointed to act as Agent on behalf of the Banks. Each of the Banks hereby irrevocably authorizes and

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

Neither the Agent nor any of its directors, officers, employees or agents shall be liable to any Bank as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instrument to which reference is made herein. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to the

Borrower on account of the failure or delay in performance or breach by any Bank of any of its obligations hereunder or to any Bank on account of the failure of or delay in performance or breach by any other Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or other affiliate thereof as if it were not the Agent.

Each Bank recognizes that applicable laws, rules, regulations or guidelines of governmental authorities may require the Agent to determine whether the transactions contemplated hereby should be classified as "highly lever aged" or assigned any similar or successor classification, and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Banks by the Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any action

taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by the Borrower; provided, however, that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

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

The Agent may execute any of its duties under this Agreement by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or agent shall not release the Agent from its obligation to perform or cause to be performed the delegated duty.

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

ARTICLE IX. MISCELLANEOUS

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

(a) if to the Borrower, to it at East 1411 Mission Avenue (99202), P.O. Box 3727, Spokane, Washington 99220, Attention of the Senior Vice President and Chief Financial Officer (Telecopy No. 509-482-4879);

(b) if to the Agent, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951-9921); and

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

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

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties, including, without limitation, any indemnities and reimbursement obligations, made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Banks and shall survive the making by the

Banks of the Loans, and the execution and delivery to the Banks of any Notes evidencing such Loans, regardless of any investigation made by the Banks, or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid and so long as the Commitments have not been terminated.

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

(b) Each Bank (including the Agent when acting as a Bank) may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment and the same portion of the applicable Loan or Loans at the time owing to it other than any Auction Loans, which may, but need not, be assigned); provided, however, that (i) except in the case of an assignment to a Bank or an Affiliate of such Bank, the Borrower and the Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.12, 2.13(a), 2.14 or 2.18 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or

transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, except that this clause (iii) shall not apply to rights in respect of outstanding Auction Loans, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$5,000,000 (or, if less, the total amount of their Commitments), (v) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance and a processing and recordation fee of \$5,000 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.14, 2.18 and 9.05, as well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such

assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

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

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Upon the request of the assignee, the Borrower, at its own expense, shall execute and deliver to the Agent, a new Note or Notes to the order of such assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment, upon the request of the assigning bank, the Borrower shall execute and deliver a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it and any Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.12, 2.14 and 2.18 to the same extent as if they were Banks (provided, that the amount of such benefit shall be limited to the amount in respect of the interest sold to which the seller of such participation would have been entitled had it not sold such interest) and (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable

hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or changing or extending the Commitments).

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

(h) Notwithstanding anything to the contrary contained herein, any Bank (a "Granting Bank") may grant to a special purpose funding vehicle (an "SPC") the option to fund all or any part of any Loan that such Granting Bank would otherwise be obligated to fund pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to fund any Loan, and (ii) if an SPC elects not to exercise such option or otherwise fails to fund all or any part of such Loan, the Granting Bank shall be obligated to fund such Loan pursuant to the terms hereof. The funding of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent, and as if, such Loan were funded by such Granting Bank. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or payment under this Agreement for which a Bank would otherwise be liable for so long as, and to the extent, the Granting Bank provides such indemnity or makes such payment. Notwithstanding anything to the contrary contained in this Agreement, any SPC may disclose on a confidential basis any non-public information relating to its funding of Loans to any rating agency, commercial paper dealer or provider of any surety or guarantee to such SPC. This paragraph may not be amended without the prior written consent of each Granting Bank, all or any part of whose Loan is being funded by an SPC at the time of such amendment.

(i) Any Bank may at any time assign for security purposes all or any portion of its rights under this Agreement and any Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

(j) Subject to Section 6.02, the Borrower shall not assign or delegate any of its rights or duties hereunder.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or the Notes issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent, and, in connection with any such amendment, modification or waiver or any such enforcement or protection, the fees, charges and disbursements of any other internal or external counsel for the Agent or any Bank. The Borrower further agrees that it shall indemnify the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

(b) The Borrower agrees to indemnify the Agent and each Bank and each of their respective directors, officers, employees and agents (each such person being called an "Indemnatee") against, and to hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnatee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the

performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

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

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or bank Controlling such Bank) to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have. Any Bank shall provide the Borrower with written notice promptly after exercising its rights under this Section.

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

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

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Bank affected thereby, (ii) change or extend the Commitment or decrease the Commitment Fees of any Bank without the prior written consent of such Bank, or (iii) amend or modify the provisions of Section 2.15, the provisions of this Section or the definition of "Required Banks", without the prior written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent hereunder without the prior written consent of the Agent. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any

person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

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

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

SECTION 9.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

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

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

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

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

jurisdiction.

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

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

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

AVISTA CORPORATION,

by /s/ Ronald R. Peterson

Name: Ronald R. Peterson
Title: Vice President and
Treasurer

TORONTO DOMINION (TEXAS),
INC., as Agent,

by /s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Vice President

THE BANK OF NEW YORK, as
Documentation Agent,

by /s/ Steven Kalachman

Name: Steven Kalachman
Title: Vice President

BANK OF AMERICA, N.A, as
Syndication Agent,

by /s/ Gary M. Tsuyuki

Name: Gary M. Tsuyuki
Title: Managing Director

TORONTO DOMINION (TEXAS), INC.,

by /s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Vice President

THE BANK OF NEW YORK,

by /s/ Steven Kalachman

Name: Steven Kalachman
Title: Vice President

BANK OF AMERICA, N.A.,

by /s/ Gary M. Tsuyuki

Name: Gary M. Tsuyuki
Title: Managing Director

FIRST SECURITY BANK, N.A.,

by /s/ Brian W. Cook

Name: Brian W. Cook
Title:

FLEET NATIONAL BANK,

by /s/ Suresh V. Chivukula

Name: Suresh V. Chivukula
Title: Senior Vice
President

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK,

by /s/ Robert Bottamedi

Name: Robert Bottamedi
Title: Vice President

U.S. BANK, NATIONAL ASSOCIATION,

by /s/ Wilfred C. Jack

Name: Wilfred C. Jack
Title: Vice President

WELLS FARGO BANK, N.A.,

by /s/ Tom Beil

Name: Tom Beil
Title: Vice President

[FORM OF]

NOTE

\$ _____
New York, New York

June 26, 2000

FOR VALUE RECEIVED, the undersigned, AVISTA CORPORATION, a Washington corporation (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of Toronto Dominion (Texas), Inc., (the "Agent"), at 909 Fanning, Suite 1700, Houston, Texas 77010, (i) on the last day of each Interest Period, as defined in the \$140,000,000 Amended and Restated Revolving Credit Agreement dated as of June 26, 2000 (the "Credit Agreement"), among the Borrower, the Banks named therein and the Agent, the aggregate unpaid principal amount of all Loans (as defined in the Credit Agreement) made to the Borrower by the Bank pursuant to the Credit Agreement to which such Interest Period applies and (ii) on the Expiration Date (as defined in the Credit Agreement) the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date hereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at the rate or rates per annum and payable on the dates provided in the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates provided in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates and maturity dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not affect the obligations of the Borrower under this Note.

This Note is one of the Notes referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

AVISTA CORPORATION

by

Name:
Title:

Loans and Payments

Date	Amount and Type/Class of Loan	Maturity Date	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
			Principal	Interest		
-----	-----	-----	-----	-----	-----	-----

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the \$140,000,000 Amended and Restated Credit Agreement dated as of June 26, 2000 (as in effect from time to time, the "Credit Agreement"), among Avista Corporation, a Washington corporation (the "Borrower"), the banks listed on Schedule 2.01 thereto (the "Banks") and Toronto Dominion (Texas), Inc., as agent for the Banks (in such capacity, the "Agent"). Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Effective Date and Revolving Loans [and Auction Loans] owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Revolving Loans [and Auction Loans] to the Effective Date, and the amount, if any, set forth on the reverse hereof of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being delivered to the Agent together with (i) if the Assignee is

organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.18(f) of the Credit Agreement, duly completed and executed by such Assignee, (ii) if the Assignee is not already a Bank under the Credit Agreement, an Administrative Questionnaire in the form of Exhibit C to the Credit Agreement and (iii) a processing and recordation fee of \$5,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment):

Facility -----	Principal Amount Assigned (and identifying information as to individual Auction Loans) -----	Percentage Assigned of Facility and Commitment Thereunder (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Banks thereunder) -----
Commitment Assigned:	\$	%
Revolving Loans:	\$	%
Auction Loans:	\$	%
Fees Assigned (if any):	\$	%

The terms set forth above and on the reverse side hereof are hereby agreed to:

Accepted:

_____, as Assignor

TORONTO DOMINION (TEXAS),
INC., as Agent

By: _____
Name:
Title:

By: _____
Name:
Title:

_____, as Assignee

Title:

By: _____
Name:

AVISTA CORPORATION

By: _____
Name:
Title:

Administrative Questionnaire

Opinion of Counsel for the Borrower

Opinion of Special Counsel to the Borrower

Banks

Bank - ----	Commitment -----
Toronto Dominion (Texas), Inc. 909 Fanning Suite 1700 Houston, TX 77010 Attention: Ms. Kimberly Burleson Telecopy: (713) 951-9921 With copies to: Toronto-Dominion Bank U.S.A. Division 31 West 52nd Street New York, NY 10019-6101 Attention: Mr. Peter Cody Telecopy: (212) 262-1929	\$21,550,000.00
Bank of America, N.A. 555 California Street 41st Floor San Francisco, CA 94104 Attention: Gary Tsuyuki Telecopy: (415) 622-0632	\$21,550,000.00
The Bank of New York One Wall Street New York, NY 10286 Attention: Ms. Trisha E. Hardy Telecopy: (212) 635-7923	\$21,550,000.00
First Security Bank, N.A. 119 North 9th Street Boise, ID 83730 Attention: Mr. Brian Cook Telecopy: (509) 353-2472	\$8,075,000.00
Fleet National Bank 100 Federal Street Boston, MA 02110	\$13,475,000.00

Attention: Leroy Gayle
 Telecopy: (617) 434-3652

Morgan Guaranty Trust Company of New York \$13,475,000.00
 60 Wall Street
 New York, NY 10261

Attention: Mr. Robert Bottamedi
 Telecopy: (212) 640-5010

U.S. Bank \$10,750,000.00
 1420 Fifth Avenue
 11th Floor
 WWH276
 Seattle, WA 98101

Attention: Mr. Wilfred Jack
 Telecopy: (206) 344-3654

Wells Fargo Bank, National Association \$10,750,000.00
 524 W. Riverside Avenue
 Suite 800
 8th Floor
 Spokane, WA 99210

Attention: Mr. Tom Beil
 Telecopy: (509) 455-5762

 \$121,175,000.00

Significant Subsidiaries

Name -----	Percent Ownership -----
Avista Capital, Inc.	100%
	100

SCHEDULE 4.02(b)

Statutes and Orders of Governmental Authorities

1. Statute of Washington authorizing borrowings of one year or less without approval and/or Order(s) of the Washington Utilities and Transportation Commission.
2. Statute of Oregon authorizing borrowings of one year or less without approval and/or Order(s) of the Oregon Public Utility Commission.
3. Statute of Idaho authorizing borrowings of one year or less without approval and/or Order(s) of the Idaho Public Utilities Commission.
4. Statute of California authorizing borrowings of one year or less without approval and/or Order(s) of the California Public Utilities Commission.

AVISTA CORPORATION

Computation of Ratio of Earnings to Fixed Charges and Preferred
Dividend Requirements
Consolidated
(Thousands of Dollars)

	Years Ended December 31				
	2000	1999	1998	1997	1996
Fixed charges, as defined:					
Interest on long-term debt	\$ 65,314	\$ 62,032	\$ 66,218	\$ 63,413	\$ 60,256
Amortization of debt expense and premium - net	3,409	3,044	2,859	2,862	2,998
Interest portion of rentals	4,324	4,645	4,301	4,354	4,311
	-----	-----	-----	-----	-----
Total fixed charges	\$ 73,047	\$ 69,721	\$ 73,378	\$ 70,629	\$ 67,565
	=====	=====	=====	=====	=====
Earnings, as defined:					
Net income	\$ 91,679	\$ 26,031	\$ 78,139	\$114,797	\$ 83,453
Add (deduct):					
Income tax expense	73,461	16,740	43,335	61,075	49,509
Total fixed charges above	73,047	69,721	73,378	70,629	67,565
	-----	-----	-----	-----	-----
Total earnings	\$238,187	\$112,492	\$194,852	\$246,501	\$200,527
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	3.26	1.61	2.66	3.49	2.97
Fixed charges and preferred dividend requirements:					
Fixed charges above	\$ 73,047	\$ 69,721	\$ 73,378	\$ 70,629	\$ 67,565
Preferred dividend requirements (1)	42,753	35,149	13,057	8,261	12,711
	-----	-----	-----	-----	-----
Total	\$115,800	\$104,870	\$ 86,435	\$ 78,890	\$ 80,276
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges and preferred dividend requirements	2.06	1.07	2.25	3.12	2.50

(1) Preferred dividend requirements have been grossed up to their pre-tax level.

Avista Corporation
SUBSIDIARIES OF REGISTRANT

Subsidiary -----	State of Incorporation -----
Avista Capital, Inc.	Washington
Avista Advantage, Inc.	Washington
Avista Communications, Inc.	Washington
Avista Development, Inc.	Washington
Avista Energy, Inc.	Washington
Avista Laboratories, Inc.	Washington
Avista Power, Inc.	Washington
Avista Services, Inc.	Washington
Avista Turbine Power, Inc.	Washington
Avista Ventures, Inc.	Washington
Pentzer Corporation	Washington
WWP Receivables Corp.	Washington