UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

Commission file number 1-3701

AVISTA CORPORATION

(Exact name of registrant as specified in its charter)

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

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

None

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

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

Yes [X] No [ ]

As of July 31, 2001, 47,474,045 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

TABLE OF CONTENTS

AVISTA CORPORATION

Index

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Avista Corporation

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

	2001	2000
OPERATING REVENUES	$1,549,966	$1,353,414
OPERATING EXPENSES:		
Resource costs	1,396,902	1,287,295
Operations and maintenance	26,816	24,676
Administrative and general	38,472	35,040
Depreciation and amortization	19,684	18,832
Taxes other than income taxes	16,316	12,356
Exit costs — Avista Energy's Eastern energy business	—	2,958
Total operating expenses	1,498,190	1,381,157
INCOME (LOSS) FROM OPERATIONS	51,776	(27,743)
OTHER INCOME (EXPENSE):		
Interest expense	(28,747)	(15,230)
Net gain on subsidiary transactions	1,291	729
Other income-net	12,954	15,381
Total other income (expense)-net	(14,502)	880
INCOME (LOSS) BEFORE INCOME TAXES	37,274	(26,863)
INCOME TAXES	14,549	(5,370)
NET INCOME (LOSS)	22,725	(21,493)
DEDUCT — Preferred stock dividend requirements (Note 4)	608	608
INCOME (LOSS) AVAILABLE FOR COMMON STOCK	$ 22,117	$ (22,101)
Average common shares outstanding (thousands), Basic (Note 4)	47,372	47,113
EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED (Note 4)	$ 0.47	$ (0.47)
Dividends paid per common share	$ 0.12	$ 0.12
NET INCOME (LOSS)	$ 22,725	$ (21,493)
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustment	72	16
Unrealized investment gains — net of tax	649	249
TOTAL OTHER COMPREHENSIVE INCOME	721	265
COMPREHENSIVE INCOME (LOSS)	$ 23,446	$ (21,228)

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Avista Corporation

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

	2001	2000
OPERATING REVENUES	$3,593,315	$2,735,387
OPERATING EXPENSES:		
Resource costs	3,278,678	2,545,956
Operations and maintenance	50,997	52,101
Administrative and general	76,101	59,747
Depreciation and amortization	40,704	37,982
Taxes other than income taxes	34,092	28,466
Exit costs — Avista Energy's Eastern energy business	—	7,865
Restructuring charges — Pentzer	—	1,940
Total operating expenses	3,480,572	2,734,057
INCOME FROM OPERATIONS	112,743	1,330
OTHER INCOME (EXPENSE):		
Interest expense	(50,330)	(29,966)
Net gain on subsidiary transactions	3,443	821
Other income-net	20,606	18,650
Total other income (expense)-net	(26,281)	(10,495)
INCOME (LOSS) BEFORE INCOME TAXES	86,462	(9,165)
INCOME TAXES	34,334	1,803
NET INCOME (LOSS)	52,128	(10,968)
DEDUCT — Preferred stock dividend requirements (Note 4)	1,216	22,518
INCOME (LOSS) AVAILABLE FOR COMMON STOCK	$ 50,912	$ (33,486)
Average common shares outstanding (thousands), Basic (Note 4)	47,305	44,205
EARNINGS (LOSS) PER COMMON SHARE, BASIC AND DILUTED (Note 4)	$ 1.08	$ (0.76)
Dividends paid per share of common stock	$ 0.24	$ 0.24
NET INCOME (LOSS)	$ 52,128	$ (10,968)
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustment	58	57
Unrealized investment gains — net of tax	2,214	403
TOTAL OTHER COMPREHENSIVE INCOME	2,272	460
COMPREHENSIVE INCOME (LOSS)	$ 54,400	$ (10,508)

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED BALANCE SHEETS
Avista Corporation

Dollars in thousands

	June 30, 2001	December 31, 2000
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 249,859	$ 194,365
Temporary investments	3,828	1,058
Accounts and notes receivable—less allowances of $41,581 and $14,579, respectively	417,416	861,308
Energy commodity assets	1,546,883	7,956,229
Materials and supplies, fuel stock and natural gas stored	22,601	24,496
Prepayments and other current assets	29,627	54,244
Total current assets	2,270,214	9,091,700
UTILITY PROPERTY:		
Utility plant in service	2,243,634	2,205,230

Construction work in progress	47,762	33,535
Total	2,291,396	2,238,765
Less: Accumulated depreciation and amortization	748,190	720,453
Net utility plant	1,543,206	1,518,312
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power—net	44,538	46,981
Non-utility properties and investments—net	316,988	219,450
Non-current energy commodity assets	685,512	1,367,107
Other property and investments—net	23,752	21,885
Total other property and investments	1,070,790	1,655,423
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	153,663	156,692
Other regulatory assets	185,718	5,407
Utility energy commodity derivative assets	26,733	—
Power and natural gas deferrals	216,168	75,648
Unamortized debt expense	38,248	27,874
Other deferred charges	28,779	32,868
Total deferred charges	649,309	298,489
TOTAL	$5,533,519	$12,563,924
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 503,268	$ 892,545
Energy commodity liabilities	1,426,656	7,834,007
Current portion of long-term debt	95,267	89,901
Short-term borrowings	—	163,160
Taxes and interest accrued	14,598	1,971
Other current liabilities	85,243	143,623
Total current liabilities	2,125,032	9,125,207
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	41,695	38,975
Deferred revenue	45,229	46,498
Non-current energy commodity liabilities	585,900	1,272,374
Utility energy commodity derivative liabilities	205,893	—
Deferred income taxes	499,595	446,310
Other deferred credits	77,126	95,530
Total non-current liabilities and deferred credits	1,455,438	1,899,687
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,953,049	1,539,030
COMMITMENTS AND CONTINGENCIES (Note 5)		
TOTAL	$5,533,519	$12,563,924

The Accompanying Notes are an Integral Part of These Statements.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
Avista Corporation

Dollars in thousands

	June 30, 2001	December 31, 2000
LONG-TERM DEBT:		
First Mortgage Bonds:		
Secured Medium-Term Notes:		
Series A — 6.25% to 7.90% due 2002 through 2023	$ 124,500	$ 129,500
Series B — 6.50% to 7.89% due 2002 through 2010	59,000	74,000
Total first mortgage bonds	183,500	203,500
Unsecured 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 Senior Notes		
9.75% due 2008	400,000	—
Unsecured Medium-Term Notes:		
Series A — 7.94% to 8.99% due 2003 through 2007	13,000	13,000
Series B — 6.75% to 8.23% due 2002 through 2023	79,000	89,000
Series C — 5.99% to 8.02% due 2007 through 2028	109,000	109,000
Series D — 8.625% due 2003	175,000	175,000
Total unsecured medium-term notes	376,000	386,000
Other long-term debt	1,971	2,619
Unamortized debt discount	(2,753)	(113)
Total long-term debt	1,046,518	679,806
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	40,000
Total company-obligated mandatorily redeemable preferred trust securities	100,000	100,000
PREFERRED STOCK — CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$695 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	35,000	35,000
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized; 47,465,210 and 47,208,689 shares outstanding	615,502	610,741
Note receivable from employee stock ownership plan	(6,379)	(7,040)
Capital stock expense and other paid in capital	(11,692)	(11,696)
Other comprehensive income	1,549	(723)
Retained earnings	172,551	132,942
Total common equity	771,531	724,224
TOTAL CAPITALIZATION	$1,953,049	$1,539,030

The Accompanying Notes are an Integral Part of These Statements.

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

For the Six Months Ended June 30
Dollars in thousands

	2001	2000
OPERATING ACTIVITIES:		
Net income	$ 52,128	$ (10,968)
Non-cash items included in net income:		
Depreciation and amortization	40,704	37,982
Provision for deferred income taxes	55,593	(6,721)
Power and natural gas cost deferrals and amortizations	(141,075)	(5,718)
Gain on sale of property and subsidiary investments — net	(329)	(12,991)
Energy commodity assets and liabilities	(16,440)	11,884
Other — net	5,960	(292)
Changes in working capital components:		
Sale of customer accounts receivables — net	(4,000)	6,000
Receivables and prepaid expense	456,560	(249,316)
Materials & supplies, fuel stock and natural gas stored	1,895	2,049
Payables and other accrued liabilities	(419,225)	190,477
Other	(12,521)	33,410
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	19,250	(4,204)
INVESTING ACTIVITIES:		
Construction expenditures (excluding AFUDC)	(55,365)	(40,224)
Other capital requirements	(108,264)	(14,831)
Change in other noncurrent balance sheet items — net	(1,163)	4,658
Proceeds from property sales and sale of subsidiary investments	97	89,942

Assets acquired and investments in subsidiaries	(349)	(2,253)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(165,044)	37,292
FINANCING ACTIVITIES:		
Increase (decrease) in short-term borrowings	(163,160)	12,802
Proceeds from issuance of long-term debt	400,000	20,000
Redemption and maturity of long-term debt	(25,140)	(27,807)
Issuance of common stock, net of repurchases	5,423	1,843
Cash dividends paid	(12,586)	(15,747)
Other — net	(3,249)	(1,249)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	201,288	(10,158)
NET INCREASE IN CASH AND CASH EQUIVALENTS	55,494	22,930
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	194,365	40,041
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 249,859	$ 62,971
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) during the period:		
Interest	$ 37,793	$ 30,078
Income taxes	(21,975)	21,529
Non-cash financing and investing activities:		
Intangibles acquired through issuance of common stock	1,286	—
Changes due to SFAS 115 adjustment to investments	3,405	—
Property purchased under capitalized leases	469	—
Series L Preferred Stock converted to common stock	—	271,286

The Accompanying Notes are an Integral Part of These Statements.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation

For the Three Months Ended June 30
Dollars in thousands

	2001	2000
OPERATING REVENUES:		
Avista Utilities	$ 317,066	$ 318,783
Energy Trading and Marketing	1,263,484	1,043,467
Information and Technology	6,217	2,228
Avista Ventures and Other	3,534	8,660
Intersegment eliminations	(40,335)	(19,724)
Total operating revenues	$1,549,966	$1,353,414
RESOURCE COSTS:		
Avista Utilities:		
Power purchased	$ 215,115	$ 269,569
Natural gas purchased for resale	33,368	22,665
Fuel for generation	26,159	9,883
Power and natural gas deferrals, net of amortization	(67,870)	(4,725)
Other	14,374	54,297
Energy Trading and Marketing:		
Cost of sales	1,216,091	955,330
Intersegment eliminations	(40,335)	(19,724)
Total resource costs (excluding non-energy businesses)	$1,396,902	$1,287,295
GROSS MARGINS:		
Avista Utilities	$ 95,920	$ (32,906)
Energy Trading and Marketing	47,393	88,137
Total gross margins (excluding non-energy businesses)	$ 143,313	$ 55,231
OPERATIONS AND MAINTENANCE EXPENSES:		
Avista Utilities	$ 17,752	$ 15,655
Energy Trading and Marketing	195	(50)
Information and Technology	5,076	2,611
Avista Ventures and Other	3,793	6,460
Total operations and maintenance expenses	$ 26,816	$ 24,676
ADMINISTRATIVE AND GENERAL EXPENSES:		
Avista Utilities	$ 14,495	$ 16,077
Energy Trading and Marketing	10,832	9,562

Information and Technology	10,223	7,346
Avista Ventures and Other	2,922	2,055
Total administrative and general expenses	$ 38,472	$ 35,040
DEPRECIATION AND AMORTIZATION EXPENSES:		
Avista Utilities	$ 15,137	$ 16,071
Energy Trading and Marketing	474	481
Information and Technology	3,230	1,315
Avista Ventures and Other	843	965
Total depreciation and amortization expenses	$ 19,684	$ 18,832
INCOME (LOSS) FROM OPERATIONS (PRE-TAX):		
Avista Utilities	$ 34,517	$ (92,023)
Energy Trading and Marketing	34,762	74,221
Information and Technology	(13,469)	(8,928)
Avista Ventures and Other	(4,034)	(1,013)
Total income (loss) from operations (pre-tax)	$ 51,776	$ (27,743)

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation

For the Three Months Ended June 30
Dollars in thousands

	2001	2000
INCOME (LOSS) AVAILABLE FOR COMMON STOCK:		
Avista Utilities	$ 9,521	$ (62,645)
Energy Trading and Marketing	25,886	47,300
Information and Technology	(8,982)	(6,248)
Avista Ventures and Other	(4,308)	(508)
Total income (loss) available for common stock	$ 22,117	$ (22,101)
ASSETS: (2000 amounts as of December 31)		
Avista Utilities	$2,333,653	$ 2,129,614
Energy Trading and Marketing	3,055,967	10,271,834
Information and Technology	92,064	59,632
Avista Ventures and Other	51,835	102,844
Total assets	$5,533,519	$12,563,924
CAPITAL EXPENDITURES (excluding AFUDC):		
Avista Utilities	$ 36,187	$ 23,068
Energy Trading and Marketing	52,868	101
Information and Technology	5,711	9,195
Avista Ventures and Other	—	221
Total capital expenditures	$ 94,766	$ 32,585

The Accompanying Notes are an Integral Part of These Statements.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation

For the Six Months Ended June 30
Dollars in thousands

	2001	2000
OPERATING REVENUES:		
Avista Utilities	$ 732,692	$ 617,326
Energy Trading and Marketing	3,008,378	2,149,655
Information and Technology	11,628	4,517
Avista Ventures and Other	9,224	15,774
Intersegment eliminations	(168,607)	(51,885)
Total operating revenues	$3,593,315	$2,735,387

RESOURCE COSTS:		
Avista Utilities:		
Power purchased	$ 458,548	$ 388,702
Natural gas purchased for resale	150,389	65,804
Fuel for generation	52,074	23,175
Power and natural gas deferrals, net of amortization	(134,506)	(5,781)
Other	9,359	67,921
Energy Trading and Marketing:		
Cost of sales	2,911,421	2,058,020
Intersegment eliminations	(168,607)	(51,885)
Total resource costs (excluding non-energy businesses)	$3,278,678	$2,545,956
GROSS MARGINS:		
Avista Utilities	$ 196,828	$ 77,505
Energy Trading and Marketing	96,957	91,635
Total gross margins (excluding non-energy businesses)	$ 293,785	$ 169,140
OPERATIONS AND MAINTENANCE EXPENSES:		
Avista Utilities	$ 33,836	$ 31,922
Energy Trading and Marketing	205	518
Information and Technology	8,745	7,243
Avista Ventures and Other	8,211	12,418
Total operations and maintenance expenses	$ 50,997	$ 52,101
ADMINISTRATIVE AND GENERAL EXPENSES:		
Avista Utilities	$ 29,023	$ 30,415
Energy Trading and Marketing	22,686	13,344
Information and Technology	20,004	12,225
Avista Ventures and Other	4,388	3,763
Total administrative and general expenses	$ 76,101	$ 59,747
DEPRECIATION AND AMORTIZATION EXPENSES:		
Avista Utilities	$ 31,641	$ 32,756
Energy Trading and Marketing	947	1,133
Information and Technology	6,418	2,139
Avista Ventures and Other	1,698	1,954
Total depreciation and amortization expenses	$ 40,704	$ 37,982
INCOME (LOSS) FROM OPERATIONS (PRE-TAX):		
Avista Utilities	$ 72,172	$ (44,417)
Energy Trading and Marketing	70,845	67,674
Information and Technology	(25,155)	(17,190)
Avista Ventures and Other	(5,119)	(4,737)
Total income (loss) from operations (pre-tax)	$ 112,743	$ 1,330

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation

For the Six Months Ended June 30
Dollars in thousands

	2001	2000
INCOME (LOSS) AVAILABLE FOR COMMON STOCK:		
Avista Utilities	$ 21,985	$ (64,699)
Energy Trading and Marketing	52,985	43,762
Information and Technology	(16,686)	(11,912)
Avista Ventures and Other	(7,372)	(637)
Total income (loss) available for common stock	$ 50,912	$ (33,486)
ASSETS: (2000 amounts as of December 31)		
Avista Utilities	$2,333,653	$ 2,129,614
Energy Trading and Marketing	3,055,967	10,271,834
Information and Technology	92,064	59,632
Avista Ventures and Other	51,835	102,844
Total assets	$5,533,519	$12,563,924
CAPITAL EXPENDITURES (excluding AFUDC):		
Avista Utilities	$ 56,374	$ 41,646

Energy Trading and Marketing	93,298	114
Information and Technology	14,826	14,022
Avista Ventures and Other	379	695
Total capital expenditures	$ 164,877	$ 56,477

The Accompanying Notes are an Integral Part of These Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Avista Corporation (Avista Corp. or the Company) for the interim periods ended June 30, 2001 and 2000 are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of the results of operations for those interim periods. The financial statements have been prepared in accordance with accounting principals generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated statements of income for the interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters which would be included in full fiscal year financial statements; therefore, they should be read in conjunction with the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (2000 Form 10-K).

Please refer to the section "Acronyms and Terms" in the 2000 Form 10-K for definitions of terms such as capacity, energy and therm.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Avista Corp. 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, which is an operating division of Avista Corp. and not a separate entity, 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 non-regulated subsidiaries.

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 consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries. All material intercompany transactions have been eliminated. The accompanying financial statements include the Company's proportionate share of utility plant and related operations resulting from its interests in jointly owned plants.

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

Business Segments

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 operations are non-regulated, as contrasted with Avista Utilities' operations. The Information and Technology line of business operations includes internet billing services, fuel cells and telecommunications. The Avista Ventures and Other line of business encompasses other investments and non-energy operations of various subsidiaries as well as the operations of Avista Capital on a parent company only basis.

Intersegment Eliminations

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

Reclassifications

Certain prior period 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.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June 2000, the FASB issued SFAS No. 138, which amended certain provisions of SFAS No. 133 to clarify specific areas presenting difficulties in implementation. SFAS No. 133, as amended by SFAS No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. It requires the recording of all derivatives as either assets or liabilities in the balance sheet measured at estimated fair value and the recognition of the unrealized gains and losses. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure. The accounting for derivatives depends on the intended use of the derivatives and the resulting designation. The Company adopted SFAS No. 133 and the corresponding amendments under SFAS No. 138, on January 1, 2001.

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. In conjunction with the issuance of SFAS

No. 133, the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC) issued accounting orders requiring Avista Utilities to offset any derivative assets or liabilities with a regulatory asset or liability. As a result, unrealized gains or losses for Avista Utilities are not recognized in the statements of income and comprehensive income.

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.

On January 1, 2001, Avista Utilities recorded a derivative commodity asset of $252.3 million and a derivative commodity liability of $36.1 million. The difference of $216.2 million was recorded as a net regulatory liability in accordance with the accounting treatment prescribed by the accounting orders from the WUTC and IPUC discussed above. As of June 30, 2001, the derivative commodity asset balance was $26.7 million, the derivative commodity liability balance was $205.9 million and the offsetting net regulatory asset was $179.2 million. The derivative commodity asset balance is included in Deferred Charges — Utility energy commodity derivative assets, the derivative commodity liability balance is included in Non-Current Liabilities and Deferred Credits — Utility energy commodity derivative liabilities, and the offsetting net regulatory asset is included in Deferred Charges — Other regulatory assets on the Consolidated Balance Sheets. The amounts recorded as of January 1, 2001 and June 30, 2001, were based on Avista Utilities' original interpretations of SFAS No. 133, 138 and the guidance of the FASB's Derivative Implementation Group (DIG). Avista Utilities believed the majority of its long-term purchases and sales contracts for both capacity and energy qualified as normal purchases and sales under SFAS No. 133 and were not required to be recorded as derivative commodity assets and liabilities. Some contracts for less than one year in duration (short-term) are subject to booking out, whereby power may not be physically delivered. Avista Utilities believed these short-term contracts could not be classified as normal purchases and sales and were recorded as a derivative commodity asset or liability on the balance sheet.

Based on interpretations of recent DIG guidance and rulings, Avista Utilities has made changes to its accounting for certain contracts effective July 1, 2001. The DIG cleared issue C-15, "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity," on June 29, 2001. This DIG issue allows for power purchase or sale agreements (including forward and option contracts) to qualify for the normal purchase and sale exception provided certain criteria are met. Avista Utilities is still evaluating criteria specific in this DIG issue in order to conclude whether or not certain long-term purchases and sales contracts with optionality (variable load factor or capacity) will be classified as normal purchases and sales. Avista Utilities will not record derivative commodity assets and liabilities for short-term contracts subject to booking out as it has been concluded these contracts can now qualify for the normal purchases and sales exception and will be documented as such.

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 SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No. 125. This statement revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures; however, it carries over most of SFAS No. 125's provisions without reconsideration. The standards addressed in this statement are based on consistent application of a financial components approach that focuses on control. Under this approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes

liabilities when extinguished. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. This statement was effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal year 2000. The adoption of this statement did not have a material impact on the Company's financial condition or results of operations.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations" which applies to all business combinations initiated after June 30, 2001. This statement requires that all business combinations be accounted for using the purchase method; the use of the pooling-of-interests method is no longer permitted. The purchase method of accounting requires goodwill to be measured as the excess of the cost of an acquired entity over the estimated fair value of net amounts assigned to assets acquired and liabilities assumed. This statement also addresses the financial statement disclosure requirements pertaining to business combinations. The adoption of this statement did not have a material impact on the Company's financial condition or results of operations.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" which applies to all acquired intangible assets whether acquired singly, as part of a group, or in a business combination. This statement requires that goodwill not be amortized; however, goodwill for each reporting unit must be evaluated for impairment on at least an annual basis using a two-step approach. The first step used to identify potential impairment compares the estimated fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment evaluation which compares the implied fair value of goodwill to its carrying amount must be performed to determine the amount of the impairment loss, if any. This statement also provides standards for financial statement disclosures of goodwill and other intangible assets and related impairment losses. The Company will be required to adopt this statement on January 1, 2002. The adoption of this statement is not expected to have a material impact on the Company's financial condition or results of operations.

NOTE 2. ENERGY COMMODITY TRADING

The Company's energy-related businesses are exposed to risks relating to, but not limited to, changes in certain commodity prices and counterparty performance. In order to manage the various risks relating to these exposures, Avista Utilities utilizes electric, natural gas and related derivative commodity instruments, such as forwards, futures, swaps and options, and Avista Energy engages in the trading of such instruments. Avista Utilities and Avista Energy have policies and procedures to manage quantitative and qualitative risks inherent in these activities.

Avista Utilities

Avista Utilities sells and purchases electric capacity and energy to and from utilities and other entities under firm long-term contracts having terms of more than one year in the wholesale market. 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 patterns, weather, historical data and contract terms and (2) resource availability based on, among other things, estimates of streamflows, generating unit availability, historic and forward market information and experience. On the basis of these continuing projections, Avista Utilities makes purchases and sales of energy on a quarterly, monthly, daily and hourly basis to match actual resources to actual energy requirements and to sell any surplus at the best available price.

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. The market values of natural gas derivative commodity instruments held by Avista Utilities as of June 30, 2001 and December 31, 2000, were a $114.1 million net liability and a $1.0 million net asset,

respectively. The significant liability position as of June 30, 2001 is a result of forward commitments to purchase natural gas entered into at prices in excess of the current market price for natural gas.

Avista Energy

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 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 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 as of June 30, 2001, are set forth below (in thousands of mmBTUs and MWhs):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	128,885	125,959	3
Electric	125,499	123,052	19
	Index Price Payor	**Index Price Receiver**	**Maximum Terms in Years**
Energy commodities (volumes)			
Natural gas	721,548	748,682	4
Electric	898	441	4

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

Estimated Fair Value The estimated fair value of Avista Energy's derivative commodity instruments outstanding as of June 30, 2001, and the average estimated fair value of those instruments held during the six months ended June 30, 2001, are set forth below (dollars in thousands):

	Estimated Fair Value as of June 30, 2001				Average Estimated Fair Value for the six months ended June 30, 2001			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	$ 293,778	$107,115	$ 269,041	$ 91,723	$ 367,352	$ 107,103	$ 348,712	$ 100,416
Electric	1,253,105	578,397	1,157,615	494,177	5,413,802	1,120,033	5,313,165	1,030,855
Emission allowances	—	—	—	—	611	—	69	—
Total	$1,546,883	$685,512	$1,426,656	$585,900	$5,781,765	$1,227,136	$5,661,946	$1,131,271

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of June 30, 2001 was approximately six months. The weighted average term of Avista Energy's electric derivative commodity instruments as of June 30, 2001 was approximately six months. The change in the estimated fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk, from December 31, 2000, to June 30, 2001 was an increase of $2.9 million and is included in the Consolidated Statements of Income in operating revenues.

NOTE 3. FINANCINGS

Reference is made to the information relating to financings and borrowings as discussed under the caption "Liquidity and Capital Resources" in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

NOTE 4. EARNINGS (LOSS) PER COMMON SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2001	2000	2001	2000
Net income (loss)	$22,725	$(21,493)	$52,128	$(10,968)
Less: Preferred stock dividends	608	608	1,216	22,518
Income (loss) available for common stock	$22,117	$(22,101)	$50,912	$(33,486)
Weighted-average number of common shares outstanding-basic	47,372	47,113	47,305	44,205
Restricted stock *	6	—	6	—
Stock options *	114	—	41	—

Weighted-average number of common shares outstanding-diluted	47,492	47,113	47,352	44,205
Earnings (loss) per common share, Basic and Diluted	$ 0.47	$ (0.47)	$ 1.08	$ (0.76)

* Due to losses during the three and six months ended June 30, 2000, the common stock equivalents from outstanding restricted stock and stock options are not included in the calculations for the weighted-average number of common shares outstanding for diluted earnings (loss) per common share because the effect is antidilutive.

NOTE 5. 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 issue.

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 Complaint 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 asserted 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, claimed that plaintiffs and the purported class suffered damages as a result thereof. Such alleged misstatements and omissions were 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 requested, among other things, compensatory damages in unspecified amounts and other relief as the Court may deem proper. On March 29, 2001, the Company filed a Motion to Dismiss the Consolidated Complaint, which

was granted by the Court on June 14, 2001 without prejudice to allow the plaintiffs the opportunity to amend the complaint to seek to cure the deficiencies identified by the Court.

In October 2000, the staff of the Securities and Exchange Commission requested certain information and documentation from the Company regarding Avista Utilities' wholesale trading activities and its risk management policies and procedures with respect thereto. The Company complied with this request.

Commodity Futures Trading Commission Investigation

Avista Energy and several of its former employees were subjected to an investigation by the Commodity Futures Trading Commission (CFTC) into futures trading of certain Palo Verde and California Oregon Border electricity futures contracts traded on the New York Mercantile Exchange on four separate dates in 1998. The CFTC's Division of Enforcement (Division) recommended to the CFTC Commissioners that Avista Energy and several of its former employees be charged with manipulation, attempted manipulation and other charges in connection with trading on those four dates. Avista Energy has submitted to the Division an offer of settlement, in which it neither admits nor denies the allegations and agrees to a fine of $2.1 million and a cease and desist order. Avista Energy believes that this settlement offer will be accepted by the CFTC, and the monetary penalties provided for therein were fully accrued for as of June 30, 2001.

State of Washington Business and Occupation Tax

The State of Washington's Business and Occupation Tax applies to gross revenue from business activities. For most types of business, the tax applies to the gross sales price received for goods or services. For certain types of financial trading activities, including the sale of stocks, bonds and other securities, the tax applies to the realized gain from the sale of the financial asset. On an audit for the years 1997 through June 2000, the Department of Revenue (DOR) took the position that approximately 20% of the energy futures trades of Avista Energy should not be treated as securities trades, but rather as energy deliveries. As a result, the DOR applied tax against the gross sales price of the energy contracts at issue. Avista Energy subsequently received an assessment of $14.5 million for tax and interest related to the disputed issue. It is the position of Avista Energy that all of its futures trading activities are substantively the same and there is no proper basis for the distinction made by the DOR. An administrative appeal has been filed with the DOR and a hearing on the issue is scheduled for September 11, 2001. Avista Energy is prepared to seek relief in the Washington courts if a satisfactory determination is not received.

Hamilton Street Bridge Site

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

An Agreed Order was signed by the DOE, the Company and Burlington Northern & Santa Fe Railway Co. (another PLP) on March 13, 2000 that provided for the completion of a remedial investigation and a feasibility study. The work to be performed under the Agreed Order includes three major technical parts: completion of the remedial investigation; performance of a focused feasibility study; and implementation of an interim groundwater monitoring plan. During the second quarter of 2000, the Company received comments from the DOE on its initial remedial investigation, then submitted another draft of the remedial investigation, which has been accepted as final by the DOE. The Company also received comments from the DOE pertaining to the feasibility study, which outlines cleanup alternatives. Another feasibility study, which responded to the DOE comments, was submitted to the DOE on October 13, 2000. The Company received final comments and submitted another draft of the feasibility study in November of 2000, which was accepted. The public comment period ran from December 15, 2000 through January 18, 2001. The Company has agreed to most of the provisions of the draft Cleanup Action Plan (CAP) issued by the

DOE on June 28, 2001. The Company's portion of the costs associated with the CAP is not material to the statements of income and has been accrued for in the consolidated balance sheet.

Sale of Certain Pentzer Corporation (Pentzer) 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 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.

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

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

Avista Corp. Lines of Business

Avista Corp. 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 and Other. Avista Utilities, which is an operating division of Avista Corp. and not a separate entity, represents the regulated utility operations. Avista Capital, a wholly owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business.

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

Avista Utilities sells and purchases electric capacity and energy to and from utilities and other entities under firm long-term contracts having terms of more than one year in the wholesale market. 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 and to sell any surplus at the best available price.

During a year having normal water conditions, Avista Utilities would expect to have generating capability from its hydroelectric resources (both owned and under contract) of approximately 554 average megawatts (aMW). In a "critical water" year (defined by the Northwest Power Pool as the worst water conditions on record), Avista Utilities would expect hydroelectric capability of 404 aMW, 150 aMW below normal. Projected average hydroelectric capability for the year 2001 is 360 aMW, which is 194 aMW below normal and the lowest level in the 73 years in which records have been kept.

Developments in wholesale energy markets, compounded by deteriorating availability of hydroelectric resources, have had an adverse effect on Avista Corp.'s financial condition and results of operations. See "Developments in Wholesale Energy Markets" and "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) and Avista Power, LLC (Avista Power). Avista Energy is an electricity and natural gas marketing and trading business, operating primarily in the Western Systems Coordinating Council (WSCC), which is comprised of the eleven Western states. Avista Power was formed to develop and own generation assets. It has recently been decided that Avista Power will no longer pursue the development of additional new, non-regulated, generation projects. During the second quarter of 2001 Avista Capital terminated its partnership, Avista-STEAG, LLC, a joint venture between Avista Capital and STEAG AG, a German independent power producer, originally formed for the purpose of jointly developing 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 portal that provides a variety of energy-related products and services to

commercial and industrial customers in North America. 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 Proton Exchange Membrane (PEM) fuel cells for power generation at the site of the consumer or industrial user and fuel cell components. See Item 5. Other Information for additional details. 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 Northwestern United States. Avista Corp. intends to limit its future investment in the telecommunications business and is searching for additional business partners for Avista Communications.

The Avista Ventures and Other line of business includes Avista Ventures, Inc. (Avista Ventures), Avista Capital (parent company only amounts) 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.

DEVELOPMENTS IN WHOLESALE ENERGY MARKETS

Avista Utilities — Regulatory Matters

Beginning in the second quarter of 2000, the price of power and natural gas in the Western wholesale market increased considerably and became much more volatile. While prices decreased somewhat during the second quarter of 2001, the wholesale markets remain volatile. Federal and state officials, including the Federal Energy Regulatory Commission (FERC), the California Public Utility Commission and the Attorneys General of California, Oregon and Washington, have commenced reviews to determine the causes of the changes in the wholesale energy markets to develop legal and regulatory remedies to address alleged market failures or abuses and large defaults by certain parties in California.

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 through June 30, 2001. The specific power costs deferred include the changes in power costs to Avista Utilities from the costs included in base retail rates, resulting from changes in short-term wholesale market prices, changes in the level of hydroelectric generation and changes in the level of thermal generation (including changes in fuel prices). 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 approval of the modification was conditioned on Avista Utilities filing by March 20, 2001 a proposal addressing the prudence of the incurred power costs, the optimization of Company-owned resources to the benefit of retail customers and the appropriateness of recovery of power costs through a deferral mechanism. This proposal was also to address cost of capital offsets to recognize the shift in risk from shareholders to ratepayers and Avista Utilities' plan to mitigate the deferred power costs.

On May 23, 2001, the WUTC approved a settlement agreement reached among Avista Corp., the staff of the WUTC and other parties with respect to deferred power costs. The agreement, among other things, provides for the extension of Avista Corp.'s deferral accounting mechanism through February 2003. Due to the planned addition of generating resources as well as the expiration of certain long-term power sale agreements, Avista Utilities, at the time of the settlement agreement, expected to be in a power surplus position by the middle of 2002. The agreement was based, in part, on the expectation that Avista Utilities' profits from surplus power sales would offset the power cost deferral balance, reducing the balance to zero by the end of February 2003 without any price increase to retail customers. These expectations were based on assumptions as to a number of variables including, but not limited to, streamflow conditions, thermal plant performance, level of retail loads, wholesale market prices and the amount of additional generating resources. Avista Utilities reserved the right to alter, amend, or terminate the settlement agreement as well as the right to seek interim rate relief. As discussed below, subsequent events and conditions have changed Avista Utilities' original expectations and plans.

On June 18, 2001, the FERC issued an order adopting a price mitigation plan applicable to certain wholesale power sales in California and throughout the western United States during the period June 20, 2001 through September 30, 2002. The order applies to pre-schedule (day-ahead) and real-time (hour-ahead) transactions in the western United States. In general terms, when operating reserves fall below 7% in California and the California Independent System Operator (CalISO) calls a Stage 1 alert, the market price is capped at the operating cost of the highest cost unit in operation during the Stage 1 condition. The price during non-Stage 1 periods is based on 85% of the price established during the most recent Stage 1 alert. Sellers that do not wish to establish rates on the basis of this price mitigation plan may propose cost-of-service rates covering all of their generating units in the Western Systems Coordinating Council for the duration of the mitigation plan. Since the issuance of the FERC price mitigation plan, wholesale market prices in the West have decreased. The decrease in price has affected Avista Utilities' plan for recovery of deferred power costs through future surplus power sales as discussed below.

In response to the dramatically reduced availability of hydroelectric generation as discussed above, Avista Utilities has been required to make additional fixed price purchases of energy to meet its retail and firm wholesale load requirements for 2001 on the higher cost short-term wholesale market. Due to the shortage of hydroelectric generation in 2001, Avista Utilities is in the process of placing small diesel and natural gas-fired generators into operation at four sites in its service territory. These generation projects will add a total of 63 megawatts and will reduce the need to rely on power purchased in the wholesale market to meet retail customer demand. Site and emission permits are required prior to the facilities' operations.

During June and the first part of July 2001, Avista Utilities evaluated the effect of the recent decline in wholesale market prices and the FERC price mitigation plan on its ability to recover deferred power cost balances under the settlement agreement approved by the WUTC on May 23, 2001 and the continuing power cost adjustment (PCA) mechanism for Idaho customers approved by the IPUC. The combination of low hydroelectric availability, the cost of energy and capacity under forward contracts entered during a period of high wholesale prices to meet customer demand for 2001, the recent decline in forward wholesale prices and the FERC price mitigation plan have increased current and estimated future deferred costs to levels significantly higher than originally anticipated and significantly reduced the expected value from future surplus sales of energy. As such, Avista Utilities has determined that the plan for recovery of deferred cost balances, as contemplated in the May 23, 2001 settlement agreement with the WUTC and the existing PCA with the IPUC, is not feasible.

Accordingly, on July 18, 2001 Avista Utilities filed requests with the WUTC and IPUC for the approval of an electric energy surcharge of 36.9 percent in Washington and a PCA increase of 14.7 percent in Idaho. If the proposed rate increases are approved by the WUTC and the IPUC, Avista Utilities estimates that revenues would increase by $105.3 million per year. However, there would be no impact on net income as this increased revenue would only be a cash recovery of deferred power costs. As of June 30, 2001, Avista Utilities had deferred $142.7 million in costs for energy purchased on the wholesale market that has not been recovered in rates. The deferred energy costs would continue to grow and are projected to reach at least $265 million by December 31, 2001 unless the requested rate changes are granted. If approved as requested the surcharge and the PCA increase would become effective on September 15, 2001 and continue until December 31, 2003, but could be terminated earlier if deferred cost balances were reduced to zero before that date. Avista Utilities expects that, if the surcharge and PCA increase are granted as requested and were allowed to remain in affect, Avista Utilities' deferred cost balances would be reduced to zero by December 31, 2003. This expectation is based on a variety of assumptions, including wholesale energy prices remaining at or near current forward market prices as well as a return to average hydroelectric availability.

The Washington electric energy surcharge would be subject to refund or modification should it be subsequently determined Avista Utilities does not demonstrate the prudence of the incurred power costs, the optimization of Avista Utility-owned resources to the benefit of retail customers and the appropriateness of recovery of power costs through a deferral mechanism. In its request to the WUTC, Avista Utilities committed to file a general rate case in November 2001. That proceeding would address, in addition to the issues referred to above, the regulatory treatment of the Coyote Springs 2 project, various power supply issues previously raised by the WUTC, a long-term period power cost adjustment mechanism to be proposed by Avista Utilities, as well as other issues customarily addressed in general rate cases, including whether or not the total rates are just and reasonable.

On July 6, 2001, Avista Utilities filed requests for a purchased gas cost adjustment (PGA) with the WUTC and the IPUC. The Washington PGA was approved by the WUTC on August 8, 2001 and became effective on August 9, 2001. The PGA filing requests an overall increase of 12.2 percent in Washington and 11.5 percent in Idaho and primarily reflects increases during the past year in the cost of natural gas in the wholesale market. The amount of purchased gas costs above the amount embedded in retail rates have been deferred and totaled $65 million as of June 30, 2001 in Washington and Idaho. Avista Utilities estimates the proposed rate increases would increase revenues

by $24.6 million per year. However, there will be no impact on net income as deferred natural gas costs are amortized to offset this increase in revenues.

On July 25, 2001, the FERC issued an order related to the "California Energy Crisis" (see description below) which also directs that a separate preliminary evidentiary proceeding will commence to explore issues in the Pacific Northwest. The proceedings will determine whether there were excessive charges for spot market sales in the Pacific Northwest in the period December 25, 2000 to June 20, 2001, and whether there is sufficient factual basis for the FERC to take further action. The Pacific Northwest proceedings commenced on August 1, 2001 and the FERC has ordered that it be completed within 45 days of the July 25 order.

California Energy Crisis

In addition to energy issues directly impacting the Company, Avista Utilities and Avista Energy are also directly and indirectly involved with issues surrounding the "California Energy Crisis."

California's two largest utilities, Southern California Edison (SCE) and Pacific Gas & Electric Company (PG&E), defaulted on several hundred million dollars of payment obligations owed to various creditors in the first quarter of 2001. The PG&E and SCE defaults resulted in subsequent defaults by the California Power Exchange (CalPX), CalISO and Automated Power Exchange (APX). The latter three parties have defaulted on their payment obligations to Avista Energy. On March 10, 2001, the CalPX filed in the U.S. Bankruptcy Court for the Central District of California a voluntary petition under Chapter 11 of the bankruptcy code. The Bankruptcy Court has appointed Avista Energy and other market participants to a Creditors Committee to participate in the CalPX bankruptcy proceedings.

The Governor of California invoked emergency executive powers to seize certain power contracts (called "block forward contracts") between the CalPX and, respectively, PG&E and SCE after PG&E's and SCE's defaults. The block forward contracts would have been significant assets of the CalPX bankruptcy estate if they had not been so removed by the Governor. The CalPX initiated a claim to the Victim Compensation and Government Claims Board of the State of California for compensation related to the seized block forward contracts. The Creditors Committee and the CalPX have agreed that the Creditors Committee will assume control over the Victims Compensation claim (which has been filed and deemed to be rejected because of inaction) and various other litigation on behalf of the CalPX, the CalPX bankruptcy estate and the market participants. On July 20, 2001, the Creditors Committee filed suit against the State of California related to the seized block forward contracts. At this time, it is not possible to predict the timing or outcome of this claim against the State of California.

The CalPX began levying backcharges in January 2001 by withholding amounts payable to participants and invoicing additional amounts. On February 9, 2001, Avista Energy obtained a Temporary Restraining Order (TRO) in Federal Court in the Central District of California, suspending the backcharges. 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 filing with the FERC to: 1) take action to declare the backcharge practices to be contrary to the tariff's purpose, 2) declare the backcharges to be inoperable because of the removal of the SCE and PG&E block forward contracts, and 3) invoke jurisdiction over the CalPX in winding up its affairs. On April 6, 2001, the FERC issued its order granting a permanent bar from the backcharge practice and ruled the prior backcharges to be invalid. The FERC has been asked to clarify the treatment of previously paid backcharges by any CalPX participants.

On April 6, 2001, PG&E filed in the U.S. Bankruptcy Court for the Central District of California a voluntary petition under Chapter 11 of the bankruptcy code. PG&E is a significant debtor to the CalPX and the CalISO which, as described above, have defaulted on obligations to Avista Energy. None of Avista Corp.'s business units is owed obligations directly by PG&E. Avista Energy is actively engaged in the PG&E bankruptcy proceedings to further protect its interests in the CalPX and CalISO debts. As of June 30, 2001, Avista Energy's accounts receivable related to defaulting parties in California, net of reserves, were approximately $7.8 million.

In response to numerous complaints and requests for relief filed by California utilities and customers, the FERC issued an order on August 23, 2000 initiating hearing proceedings under section 206 of the Federal Power Act (FPA) to address matters affecting bulk power markets and wholesale energy prices (including volatile price fluctuations) in California. On November 1, 2000 the FERC proposed specific remedies to address dysfunctions in California's wholesale bulk markets and to ensure just and reasonable wholesale power rates by public utility sellers in

California. Some parties to that litigation requested refunds from sellers of electric power for past transactions. The FERC denied this request for sales prior to October 2, 2000. The FERC held that sales made after October 2, 2000 are subject to refund, with the level and extent of any refund to be determined in future orders. On April 26, 2001, the FERC issued a price mitigation order that affected CalISO spot market prices during times of power shortages (reserve margins falling below 7% as determined by the CalISO). On June 18, 2001 the FERC expanded its price mitigation plan for the California spot market to 24 hours a day, seven days a week and broadened the price curbs to the eleven state Western region. These orders, and others that are likely to follow, may result in significant restructuring of the California and Western power markets and may result in changes in the methods, terms and conditions by which Avista Energy and Avista Utilities carry out electric power transactions.

Also in the June 18, 2001 price mitigation order, the FERC directed a 15-day settlement conference under the jurisdiction of a FERC administrative law judge, which commenced on June 25, 2001 to complete the task of settling past accounts and structuring new arrangements for California's energy future. The FERC directed that if no settlement were reached, the administrative law judge would recommend appropriate actions to be taken by the FERC within seven days of the close of the settlement discussions. The June 25, 2001 to July 9, 2001 settlement conference did not result in a settlement among the parties. Therefore, as directed, the administrative law judge reported several recommendations to the FERC on July 12, 2001. On July 25, 2001, the FERC issued an order to commence a fact-finding hearing to determine amounts to be refunded for certain sales, which are defined as covering the period from October 2, 2000 to June 20, 2001 in the California spot market operated by the CalISO and the CalPX. The July 25 order also provides that any refunds owed could be offset against unpaid energy debts due to the same party.

The Company is evaluating the impact of the July 25, 2001 FERC order and can not estimate its effects on Avista Utilities and Avista Energy at this time.

RESULTS OF OPERATIONS

Overall Operations

Three months ended June 30, 2001 compared to the three months ended June 30, 2000

Net income available for common stock was $22.1 million for the three months ended June 30, 2001, compared to a net loss of $22.1 million in the three months ended June 30, 2000. The increase is primarily due to net income available for common stock of $9.5 million recorded by Avista Utilities for the three months ended June 30, 2001 compared to a net loss of $62.6 million for the three months ended June 30, 2000. Avista Utilities' net loss for the three months ended June 30, 2000 was primarily due to unprecedented sustained peaks in electric energy prices compounded by a wholesale short position. The increase in net income for Avista Utilities was partially offset by decreases in net income for the other lines of business.

The Energy Trading and Marketing line of business had net income of $25.9 million for the three months ended June 30, 2001 compared to net income of $47.3 million for the comparable period of 2000. Although net income decreased from the quarter one year ago, Avista Energy continued to benefit from a well-positioned portfolio of energy-related assets in the volatile Pacific Northwest and western energy markets. The primary reason for the decrease in net income was a decrease in the change in the fair value position of Avista Energy's energy commodity portfolio, net of reserves for credit and market risk.

The Information and Technology line of business incurred a net loss of $9.0 million for the three months ended June 30, 2001 compared to a net loss of $6.2 million for the three months ended June 30, 2000 as these businesses continued to grow their operations. The Avista Ventures and Other line of business incurred a net loss of $4.3 million for the three months ended June 30, 2001 compared to a net loss of $0.5 million for the three months ended June 30, 2000.

Basic and diluted earnings per share were $0.47 for the three months ended June 30, 2001 compared to a net loss of $0.47 per basic and diluted share for the three months ended June 30, 2000. Avista Utilities contributed $0.20 per share in 2001 compared to a net loss of $1.33 per share for the three months ended June 30, 2000. The Energy Trading and Marketing operations contributed $0.55 per share for the three months ended June 30, 2001 compared to a contribution of $1.00 per share for the same period in 2000. The Information and Technology operations had a net loss of $0.19 per share for the three months ended June 30, 2001 compared to a net loss of $0.13 per share for the comparable period of 2000. The Avista Ventures and Other operations recorded a loss of $0.09 per share for the

three months ended June 30, 2001 compared to a net loss of $0.01 per share for the three months ended June 30, 2000.

Six months ended June 30, 2001 compared to the six months ended June 30, 2000

Net income available for common stock was $50.9 million for the six months ended June 30, 2001, compared to a net loss of $33.5 million in the six months ended June 30, 2000. The increase is primarily due to net income available for common stock of $22.0 million recorded by Avista Utilities for the six months ended June 30, 2001 compared to a net loss of $64.7 million for the six months ended June 30, 2000. Avista Utilities' net loss for the six months ended June 30, 2000 was primarily due to unprecedented sustained peaks in electric energy prices compounded by a wholesale short position. The loss for the six months ended June 30, 2000 was also due in part to the conversion of all outstanding shares of Series L Preferred Stock into shares of common stock, which resulted in a one-time charge of $21.3 million for preferred stock dividend requirements. The other major part of the increase in 2001 was net income of $53.0 million recorded by the Energy Trading and Marketing line of business for the six months ended June 30, 2001 compared to net income of $43.8 million for the six months ended June 30, 2000. Avista Energy continues to benefit from a well-positioned portfolio of energy-related assets in the volatile Pacific Northwest and western energy markets.

The Information and Technology line of business incurred a net loss of $16.7 million for the six months ended June 30, 2001 compared to a net loss of $11.9 million for the six months ended June 30, 2000. The Avista Ventures and Other line of business incurred a net loss of $7.4 million for the six months ended June 30, 2001 compared to a net loss of $0.6 million for the six months ended June 30, 2000.

Basic and diluted earnings per share were $1.08 for the six months ended June 30, 2001 compared to a net loss of $0.76 per basic and diluted share for the six months ended June 30, 2000. Avista Utilities contributed $0.46 per share in 2001 compared to a net loss of $1.46 per share for the six months ended June 30, 2000. The Energy Trading and Marketing operations contributed $1.12 per share for the six months ended June 30 2001 compared to a contribution of $0.99 per share for the same period in 2000. The Information and Technology operations had a net loss of $0.35 per share for the six months ended June 30, 2001 compared to a net loss of $0.27 for the comparable period of 2000. The Avista Ventures and Other operations recorded a loss of $0.15 per share for the six months ended June 30, 2001 compared to a net loss of $0.02 per share for the six months ended June 30, 2000.

Avista Utilities

Three months ended June 30, 2001 compared to the three months ended June 30, 2000

Avista Utilities' pre-tax income from operations was $34.5 million for the three months ended June 30, 2001 compared to a loss of $92.0 million for the three months ended June 30, 2000. This increase was primarily due to a decrease in resource costs and the resulting increase in gross margin. Avista Utilities' operating revenues decreased by $1.7 million and resource costs decreased $130.5 million resulting in an increase of $128.8 million in gross margin for the three months ended June 30, 2001 as compared to 2000.

Based on 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 without making matching purchases at the same time. Avista Utilities also made certain short-term sales at fixed prices that 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, 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 during the second quarter of 2000. These purchases were made at fixed prices significantly higher than the related selling prices and at index, which settled at unprecedented levels in June 2000. The pricing of these purchases caused the majority of Avista Utilities' loss for the three months ended June 30, 2000.

Retail electric revenues increased $0.2 million for the three months ended June 30, 2001 from the comparable period of 2000. Wholesale electric revenues decreased $26.6 million, or 14%, while wholesale sales volumes decreased 65% during the three months ended June 30, 2001 from 2000, reflecting average sales prices that were 145% higher for wholesale power sales. Wholesale sales volumes decreased from the quarter one year ago due to management's decision in mid-2000 to reduce power imbalance volume limits (the difference between projected load obligations

and projected resource availability). This decision was based on the emergent market price volatility, and Avista Utilities' strategy 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.

Natural gas revenues increased $23.5 million for the three months ended June 30, 2001 from 2000 due to increased prices approved by state commissions to recover increased natural gas costs and increased therm sales, primarily due to customer growth and increased usage due to weather.

Power purchased during the three months ended June 30, 2001 decreased $54.5 million compared to the three months ended June 30, 2000 primarily due to decreased non-firm wholesale power purchases. As previously discussed, Avista Utilities decreased wholesale electric sales from 2000 to 2001, reducing the amount of non-firm wholesale power

purchases. Average purchased power prices for the three months ended June 30, 2001 were 107% higher than for the three months ended June 30, 2000; however, volumes purchased decreased 62%.

During the three months ended June 30, 2001 Avista Utilities deferred $50.5 million in power costs in Washington and $22.2 million in Idaho under the power cost adjustment mechanism currently in place. The total balance of deferred power costs was $109.4 million for Washington and $33.3 million for Idaho as of June 30, 2001. See description of issues related to deferred power costs in the section "Developments in Wholesale Energy Markets." Avista Utilities will only be able to recover these balances of deferred costs in the amounts, and at the times, authorized by the respective state commissions. Avista Utilities has a power cost adjustment mechanism 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. On July 18, 2001, Avista Utilities filed for the approval of an electric surcharge in Washington and a PCA increase in Idaho to recover these deferred power costs.

The cost of fuel for generation for the three months ended June 30, 2001 increased $16.3 million compared to the three months ended June 30, 2000 primarily due to an increase in combustion turbine plant generation and partially due to the increased cost of natural gas for generation.

The expense for natural gas purchased for resale for the three months ended June 30, 2001 increased $10.7 million compared to the three months ended June 30, 2000 due to both the increased cost of natural gas and an increase in total therms sold.

Other resource costs for the three months ended June 30, 2001 decreased $39.9 million compared to the three months ended June 30, 2000. This decrease is primarily due to the $42.8 million of expense recorded for the mark-to-market of options during the three months ended June 30, 2000, which included a $16.0 million accrual for potential future losses.

Six months ended June 30, 2001 compared to the six months ended June 30, 2000

Avista Utilities' pre-tax income from operations was $72.2 million for the six months ended June 30, 2001 compared to a loss of $44.4 million for the six months ended June 30, 2000. This increase was primarily due to an increase in operating revenues and a decrease in resource costs and the resulting increase in gross margin. Avista Utilities' operating revenues increased $115.4 million and resource costs decreased $3.9 million resulting in an increase of $119.3 million in gross margin for the six months ended June 30, 2001 as compared to 2000.

The results for the six months ended June 30, 2000 were significantly impacted by the wholesale short position and the unprecedented sustained peaks in electric energy prices during the second quarter of 2000 discussed above.

Retail electric revenues decreased $7.2 million for the six months ended June 30, 2001 from the comparable period of 2000. This decrease was primarily due to refunds to customers in January 2001 from the gain on the sale of Avista Utilities' interest in the Centralia thermal generation plant, which was sold in May 2000. Wholesale electric revenues increased $58.2 million, or 19%, while wholesale sales volumes decreased 58% during the six months ended June 30, 2001 from 2000, reflecting average sales prices that were 184% higher than the prior year. Wholesale sales volumes decreased due to management's decision in mid-2000 to reduce power imbalance volume limits as discussed above.

Natural gas revenues increased $62.3 million for the six months ended June 30, 2001 from 2000 due to increased

prices approved by state commissions to recover increased natural gas costs and increased therm sales, primarily due to customer growth and increased usage due to weather.

Power purchased during the six months ended June 30, 2001 increased $69.8 million, or 18% compared to the six months ended June 30, 2000 primarily due to the increased cost of power purchases. Average purchased power prices for the six months ended June 30, 2001 were 128% higher than for the six months ended June 30, 2000; however, volumes purchased decreased 48% which mitigated the effect of the increase in the cost of power. The decrease in the volume of purchased power was primarily the result of decreases in the volume of wholesale electric sales.

During the six months ended June 30, 2001 Avista Utilities deferred $71.3 million in power costs in Washington and $30.3 million in Idaho under the power cost adjustment mechanism currently in place. The total balance of deferred power costs was $109.4 million for Washington and $33.3 million for Idaho as of June 30, 2001. See description of issues related to deferred power costs in the section "Developments in Wholesale Energy Markets." Avista Utilities will only be able to recover these balances of deferred costs in the amounts, and at the times, authorized by the respective state commissions. On July 18, 2001, Avista Utilities filed for the approval of an electric surcharge in Washington and a PCA increase in Idaho to recover these deferred power costs.

Additionally, Avista Utilities has deferred, net of amortization, $33.8 million of purchased natural gas costs during the six months ended June 30, 2001 and total deferred natural gas costs were $76.7 million as of June 30, 2001. On July 6, 2001, the Company filed requests for a purchased gas cost adjustment with the WUTC and the IPUC in order to recover a significant portion of the deferred natural gas costs related to Washington and Idaho natural gas purchases. The Washington PGA was approved by the WUTC on August 8, 2001 and became effective on August 9, 2001.

The cost of fuel for generation for the six months ended June 30, 2001 increased $28.9 million compared to the six months ended June 30, 2000 primarily due to an increase in combustion turbine plant generation and partially due to the increased cost of natural gas for generation.

The expense for natural gas purchased for resale for the six months ended June 30, 2001 increased $84.6 million compared to the six months ended June 30, 2000 due to both the increased cost of natural gas and an increase in total therms sold.

The decrease in other resource costs of $58.6 million from 2000 is primarily due to the $43.7 million of expense recorded for the mark-to-market of options during 2000, which included a $16.0 million accrual for potential future losses.

As part of the strategy to manage the decrease in electric resources caused by the current poor hydroelectric conditions and volatile energy markets, Avista Utilities has implemented several buy-back and rebate programs for residential, commercial and industrial customers. The programs are designed to encourage conservation. Avista Utilities has acquired and is constructing several small generation projects throughout its service territory to help provide for retail customer demand. Additionally, construction is continuing on the 280 MW combined cycle natural gas turbine power plant at the Coyote Springs site near Boardman, Oregon. Ownership of the Coyote Springs plant will transfer from Avista Power to Avista Corp. during 2001 and the plant will begin operation as an asset of Avista Utilities, which is expected to be in mid-2002.

Energy Trading and Marketing

Energy Trading and Marketing includes the results of Avista Energy and Avista Power. Avista Energy maintains an energy trading portfolio that it marks to estimated fair market value on a daily basis (mark-to-market accounting), and which may cause earnings variability in the future. Market prices are utilized in determining the value of 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.

Avista Energy trades electricity and natural gas, along with derivative commodity instruments, including futures, options, swaps and other contractual arrangements. Most transactions are conducted on a largely unregulated "over-the-counter" basis, there being no central clearing mechanism (except in the case of specific instruments traded on the commodity exchanges). As a result of these trading activities, Avista Energy is subject to various risks, including market risk, liquidity risk, commodity risk and credit risk. Although Avista Energy scaled back operations to focus

primarily in the western United States during 2000, its trading operations continue to be affected by, among other things, volatility of prices within the electric energy and natural gas markets, the demand for and availability of energy, lower unit margins on new sales contracts, FERC order price caps and deregulation of the electric utility industry.

Three months ended June 30, 2001 compared to the three months ended June 30, 2000

Energy Trading and Marketing's income available for common stock for the three months ended June 30, 2001 was $25.9 million, compared to $47.3 million for the three months ended June 30, 2000. Although net income decreased compared to the three months ended June 30, 2000 Avista Energy's operations continued to be positively affected by a well-positioned portfolio of energy-related assets in the volatile Pacific Northwest and western energy markets. The primary reason for the decrease in net income was a decrease in the change in the fair value position of Avista Energy's energy commodity portfolio, net of reserves for credit and market risk, for the three months ended June 30, 2001 compared to the three months ended June 30, 2000. The increase in the fair value position was $9.5 million for the three months ended June 30, 2001 compared to $34.0 million for the three months ended June 30, 2000.

Energy Trading and Marketing's operating revenues and cost of sales increased $220.0 million and $260.8 million, respectively, for the three months ended June 30, 2001 over 2000 resulting in a decrease in gross margin. The increase in revenues and expenses is primarily the result of significantly higher prices as electric sales volumes of natural gas and electricity decreased by 18% and 53%, respectively, from the three months ended June 30, 2000. Consistent with the overall decrease in net income, the decrease in gross margin is primarily due to a decrease in the impact of the change in fair value of the energy commodity portfolio.

Avista Energy shut down its operations in Houston and Boston during the first half of 2000 resulting in an expense of $3.0 million during the three months ended June 30, 2000.

Six months ended June 30, 2001 compared to the six months ended June 30, 2000

Energy Trading and Marketing's income available for common stock for the six months ended June 30, 2001 was $53.0 million, compared to $43.8 million for the six months ended June 30, 2000. Avista Energy's operations continue to be positively affected by a well-positioned portfolio of energy-related assets in the volatile Pacific Northwest and western energy markets. Consistent with the quarterly effect, the change in the fair value of position of Avista Energy's energy commodity portfolio decreased from $32.0 million for the six months ended June 30, 2000 to $2.9 million for the six months ended June 30, 2001.

Energy Trading and Marketing's operating revenues and cost of sales increased $858.7 million and $853.4 million, respectively, for the six months ended June 30, 2001 over 2000, resulting in an increase in gross margin of $5.3 million. The increase in revenues and expenses is primarily the result of significantly higher prices as sales volumes decreased from the six months ended June 30, 2000.

Energy Trading and Marketing's administrative and general expenses increased $9.3 million compared to the six months ended June 30, 2000 due to increased incentive compensation expenses at Avista Energy.

Expenses associated with the exit of operations in Houston and Boston during the first half of 2000 totaled $7.9 million for the six months ended June 30, 2000.

Energy Trading and Marketing's total assets decreased $7.2 billion from December 31, 2000 to June 30, 2001 due to a decrease in total current and non-current energy commodity assets.

Information and Technology

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs and Avista Communications. Consistent with its overall current business strategy, Avista Corp. is seeking additional partners for the Information and Technology line of business with a focus on generating shareholder value.

Three months ended June 30, 2001 compared to the three months ended June 30, 2000

The net loss available for common stock for the three months ended June 30, 2001 was $9.0 million, compared to a

net loss of $6.2 million for the three months ended June 30, 2000. Operating revenues and expenses for this line of business increased $4.0 million and $8.5 million, respectively, during the three months ended June 30, 2001 over 2000, primarily due to growth in each of the individual businesses.

Six months ended June 30, 2001 compared to the six months ended June 30, 2000

The net loss available for common stock for the six months ended June 30, 2001 was $16.7 million, compared to a net loss of $11.9 million for the six months ended June 30, 2000. Operating revenues and expenses for this line of business increased $7.1 million and $15.1 million, respectively, during the six months ended June 30, 2001 over 2000, primarily due to growth in each of the individual businesses.

Avista Ventures and Other

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

Three months ended June 30, 2001 compared to the three months ended June 30, 2000

The net loss available for common stock from this line of business was $4.3 million for the three months ended June 30, 2001, compared to a loss of $0.5 million in 2000. The increase in the net loss from 2000 is primarily a result of increased interest expense on intercompany borrowings between Avista Capital and Avista Corp. that is eliminated in the consolidated financial statements. Operating revenues and expenses from this line of business decreased $5.1 million and $2.1 million, respectively, during the three months ended June 30, 2001, as compared to 2000. The decrease in operating revenues and expenses reflects decreased activities in this line of business.

Six months ended June 30, 2001 compared to the six months ended June 30, 2000

The net loss available for common stock from this line of business was $7.4 million for the six months ended June 30, 2001, compared to a loss of $0.6 million in 2000. The increase in the net loss from 2000 is primarily a result of increased interest expense on intercompany borrowings between Avista Capital and Avista Corp. that is eliminated in the consolidated financial statements. Operating revenues and expenses from this line of business decreased $6.6 million and $6.2 million, respectively, during the six months ended June 30, 2001, as compared to 2000. The decrease in operating revenues and expenses reflects decreased activities in this line of business.

The Company expects to post earnings per share of between $1.10 and $1.20 per diluted share for the full year of 2001. These expectations are based on current streamflow and weather projections, anticipated purchased power prices and the continued ability to defer and recover excess purchased power costs. This estimate includes reduced Avista Utilities earnings because of extremely low hydroelectric conditions, offset by better than expected earnings from Avista Energy. Earnings estimates also reflect the continued support of the Company's information and technology businesses. These projections are subject to a variety of risks and uncertainties that could cause actual results to differ from this estimate, including those described above and listed under "Safe Harbor for Forward Looking Statements." See "Liquidity and Capital Resources" for additional information.

LIQUIDITY AND CAPITAL RESOURCES

Overall Operations

Operating Activities Operating activities for the six months ended June 30, 2001 provided net cash of $19.3 million. Operating activities used $4.2 million for the six months ended June 30, 2000. The primary reason for the increase in cash flows from operating activities was net income for the six months ended June 30, 2001 of $52.1 million compared to a net loss of $11.0 million for the six months ended June 30, 2000. Cash flows from working capital components increased in 2001 compared to 2000, contributing $22.7 million in 2001 compared to net cash used of $17.4 million in 2000. Significant changes in non-cash items also include a $62.3 million increase in the provision for deferred income taxes. Cash expended for power and natural gas, but deferred for later recovery, partially offset these increases in cash from operating activities. Power and natural gas cost deferrals net of amortizations increased $135.4 million over 2000 primarily due to the effect of increased purchased power prices, fuel for generation and natural gas costs.

Investing Activities Investing activities used net cash of $165.0 million for the six months ended June 30, 2001 compared to $37.3 million of net cash provided by investing activities for the six months ended June 30, 2000. The increase in net cash used was primarily the result of increased capital expenditures in 2001 including $52.5 million for the construction of the Coyote Springs 2 project. Also contributing to the change from 2000 was $89.9 million in proceeds provided from the sale of property, primarily related to the sale of the Company's interest in the Centralia Power Plant in 2000.

Financing Activities Net cash provided by financing activities was $201.3 million for the six months ended June 30, 2001 compared to $10.2 million of net cash used by financing activities for the six months ended June 30, 2000. Short-term borrowings decreased $163.2 million and long-term debt increased $374.9 million during the six months ended June 30, 2001. The overall increase in borrowings reflects increasing cash needs for the Company to fund investing activities and increased power and natural gas costs. Short-term borrowings increased $12.8 million and long-term debt matured, net of proceeds from issuance, was $7.8 million during the six months ended June 30, 2000.

On April 3, 2001, the Company issued $400.0 million of 9.75% Senior Notes (Senior Notes) due June 1, 2008. The net proceeds from the issuance has been used to fund a portion of construction expenditures, pay down balances outstanding under the revolving line of credit and for other general corporate purposes. The Senior Notes are issued under an indenture that, among other things, restricts the ability of the Company and its subsidiaries from engaging in certain activities, including certain transactions with affiliates.

During the six months ended June 30, 2001, $15 million of Secured Medium-Term Notes, with rates of 7.59% and 7.60%, and $10 million of Unsecured Medium-Term Notes, with a rate of 9.57%, matured.

During the six months ended June 30, 2001, the Company issued 256,500 shares of common stock for $5.4 million. The shares were issued through the Employee Investment Plan, the Dividend Reinvestment and Stock Purchase Plan as well as restricted stock through the Long-Term Incentive Plan.

The Company's cash flows continue to be affected by 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 power and natural gas costs incurred to serve Avista Utilities' 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 Avista Utilities and the time they are collected from customers. Costs in excess of those included in rates are deferred as an asset on the balance sheet. Because of the continuing high level of power and natural gas prices, a significant change in resource availability (such as hydroelectric generation) or customer demand could have a significant positive or negative impact on expected deferrals and cash flows. On an interim basis, the Company has used its revolving line of credit to fund these costs to the extent that they exceed the cash flows available from operations.

In order to recover deferred natural gas and power costs, Avista Utilities filed requests with the WUTC and the IPUC for a purchased gas cost adjustment on July 6, 2001 as well as an electric surcharge to Washington customers and a PCA increase in Idaho on July 18, 2001. Further information is contained in the section "Developments in Wholesale Energy Markets."

The Company has incurred significant long-term indebtedness to support capital expenditures, to fund electric and natural gas costs in excess of the amount recovered currently through rates and to maintain working capital. As of

June 30, 2001, the Company had total long-term debt of approximately $1,141.8 million. In addition, the Company needs to finance capital expenditures and obtain additional working capital from time to time. The cash requirements to service the total amount of indebtedness, both short-term and long-term, could reduce the amount of cash flow available to fund working capital, future acquisitions, deferred power and natural gas costs, dividends, other corporate requirements and capital expenditures.

The Company has not been able to obtain additional conventional financing for the Coyote Springs 2 project due to lenders' concerns with regards to the level of deferred power costs and the corresponding effect on cash flows without any current guarantee of recovery through rates. The Company is currently considering alternative financing methods for the project. The Company believes that additional financing for the Coyote Springs 2 project will be obtained during the second half of 2001.

On July 5, 2001 the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission for the purpose of issuing up to 3.7 million shares of common stock. The Company plans to issue the shares when market conditions warrant during the second half of 2001. The Company may issue shares in any of the following

ways: directly to a limited number of institutional purchasers or to a single purchaser, through agents, through underwriters or through dealers. The proceeds received upon issuance of the shares will be used to fund construction, facility improvement and maintenance programs, to pay short-term debt and maturing long-term debt and for other general corporate purposes.

The California energy crisis discussed earlier has impacted 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.

The Company funds capital expenditures with a combination of internally-generated cash and external financing. The level of cash generated internally and the amount that is available for capital expenditures fluctuates depending on a variety of factors. External financings and cash provided by operating activities remain the Company's primary source of funds for operating needs, dividends and capital expenditures. Capital expenditures are financed on an interim basis with notes payable (due within one year). On May 31, 2001 Avista Corp. renewed its committed line of credit and repaid all outstanding borrowings under that facility. The new $220 million credit facility expires on May 29, 2002. As of June 30, 2001, there were no amounts borrowed under this committed line of credit. The Company had $50 million outstanding under this line of credit as of July 31, 2001. The Company also has a $50 million regional commercial paper program that is backed by the committed lines of credit.

As part of its ongoing cash management practices and operations, Avista Corp. may, at any time, have short-term notes receivable and payable with Avista Capital. In turn, Avista Capital may also have short-term notes receivable and payable with its subsidiaries. As of June 30, 2001, Avista Corp. had short-term notes receivable of $229.0 million from Avista Capital of which $146.0 million of the receivables represents loans to Avista Power, primarily for the Coyote Springs 2 project.

On February 16, 2000, the Company exercised its option to convert all the remaining outstanding shares of Series L Preferred Stock into common stock. The outstanding depositary shares, also known as RECONS (Return-Enhanced Convertible Securities) were also converted into common stock on the same 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.

Current Cash Requirements

The following table provides a summary of the Company's cash requirements for the remainder of 2001 (dollars in thousands):

Avista Utilities operations:	
Operations	$ 37,294
Power and natural gas deferrals (1)	86,899
Capital expenditures (2)	95,920
Debt and preferred securities maturities and redemptions (3)	64,000
Total Avista Utilities	284,113
Avista Capital operations:	
Capital expenditures (4)	38,014
Other subsidiary cash flows, net	(8,493)
Total Avista Capital	29,521
Total Company cash requirements	$313,634

(1) Represents the cost of power and natural gas in excess of the amount currently recovered through rates.
(2) Capital expenditures exclude AFUDC and AFUCE.
(3) Excludes short-term borrowings and notes payable (due within one year) which totaled $50 million as of July 31, 2001.
(4) The 2001 capital expenditures by Avista Capital represents funding of the Coyote Springs 2 project, which will become an asset of Avista Utilities upon completion in 2002.

As indicated in the table above, the Company has considerable cash needs for the remainder of 2001. In addition to internally-generated funds, the Company plans to fund these cash requirements primarily through the following ways: (1) proceeds from the issuance of common stock (2) obtain financing for the Coyote Springs 2 project and (3) approval of an electric rate surcharge from the WUTC and an increase in the PCA from the IPUC. Any additional cash requirements will be funded through Avista Corp.'s $220 million committed line of credit. If the funding sources listed above are not obtained by September 30, 2001, it is anticipated the Company would not be in compliance with certain covenants under its line of credit and, as a result, would not be able to borrow under the line of credit without concessions or waivers from the banks. Under this scenario, the Company would have difficulty in obtaining financing from other sources.

Energy Trading and Marketing Operations

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with a group of commercial lenders in the aggregate amount of $155 million ($140 million of which is currently subscribed) expiring June 28, 2002. This credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the lenders' sole discretion. This agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. This facility is guaranteed by Avista Capital and secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for the issuance of letters of credit is the subscribed amount of the facility less the amount of outstanding cash advances, if any. The maximum amount of credit extended by the banks for cash advances is $30 million. As of June 30, 2001, there were no cash advances (demand notes payable) outstanding and letters of credit outstanding under the facility totaled approximately $23 million.

Avista Capital, in the course of business, may provide guarantees to other parties with whom Avista Energy may be doing business. Avista Corp.'s investment in Avista Capital totaled $391.3 million as of June 30, 2001. Avista Capital's investment in Avista Energy totaled $312.1 million as of June 30, 2001.

As of June 30, 2001, 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.

Avista Energy manages collateral requirements with counterparties by providing letters of credit, providing guarantees from Avista Capital and offsetting transactions with counterparties. In addition to the letters of credit and other items included above, cash deposited with counterparties totaled $0.5 million as of June 30, 2001, and is included in the Consolidated Balance Sheet in prepayments and other. Avista Energy held cash deposits from other parties in the amount of $41.6 million as of June 30, 2001, and such amounts are subject to refund if conditions warrant because of

continuing portfolio value fluctuations with those parties.

As of June 30, 2001, the Energy Trading and Marketing operations had $204.4 million in cash, including the $41.6 million of collateral posted by other parties. Covenants in Avista Energy's credit agreement limit the amount of cash dividends that can be distributed to Avista Capital and ultimately Avista Corp.

Avista Power, as a 49% owner, and Cogentrix Energy, Inc. are nearing the completion of the building of a 270 megawatt natural gas combustion turbine facility in Rathdrum, Idaho, with 100% of its output contracted to Avista Energy for 25 years. Commercial operation is expected to occur during the third quarter of 2001. The total cost of the project is estimated at $160 million; Avista Power’s equity in the project is approximately $16 million. Due to changing market conditions and as part of the Company’s overall business strategy, it has been decided Avista Power will not develop additional new, non-regulated, generating projects.

Total Company

The Company’s total common equity increased $47.3 million during the six months ended June 30, 2001 to $771.5 million primarily due to net income in excess of dividends declared on common stock. The Company’s consolidated capital structure, including the current portion of long-term debt and short-term borrowings as of June 30, 2001, was 55.7% debt, 6.6% preferred securities and 37.7% common equity, compared to 52.1% debt, 7.5% preferred securities and 40.4% common equity as of December 31, 2000. It is the Company’s plan to target a capital structure of 50% debt and 50% preferred and common equity. The Company plans to achieve this capital structure through the issuance of common stock and net earnings.

Business Risk

The Company’s operations are exposed to risks, including, but not limited to, legislative and governmental regulations, the price and supply of purchased power, fuel and natural gas, recovery of purchased power and purchased natural gas costs, weather conditions, availability of generation facilities, competition, technology and availability of funding.

The Company’s market risks related to commodity prices, credit, operations, interest rates and foreign currency have not changed materially from those reported in the 2000 Form 10-K.

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. As of June 30, 2001, Avista Energy’s estimated potential one-day unfavorable impact on gross margin was $0.6 million, as measured by VAR, related to its commodity trading and marketing business, compared to $4.0 million as of December 31, 2000. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits.

As described under “Management’s Discussion and Analysis of Financial Condition and Results of Operation — Avista Corp. Lines of Business,” hydroelectric conditions in 2001 are significantly below normal, leading to greater than normal reliance on purchased power, thermal plant generation and new generating resources. The earnings impact of these factors is mitigated by regulatory mechanisms that are intended to defer increased costs for recovery in future periods. Avista Utilities’ deferred power and natural gas costs are expected to increase further before they begin to decline. In order to recover deferred natural gas and power costs, Avista Utilities filed requests with the WUTC and the IPUC for a purchased gas cost adjustment on July 6, 2001 as well as an electric surcharge to Washington customers and a PCA increase in Idaho on July 18, 2001. The Washington PGA was approved by the WUTC on August 8, 2001 and became effective on August 9. Avista Utilities is not able to fully predict how the combination of energy resources, energy loads, prices, rate recovery and other factors will ultimately drive deferral costs and the recovery of these costs in future periods.

The most immediate risk facing the Company is liquidity, as discussed above under “Current Cash Requirements.” If the sources of funding discussed therein are not available by September 30, 2001, the Company may be in violation of certain covenants its credit arrangements and may be unable to obtain other sources of financing.

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. As previously discussed, it has been decided that Avista Power will no longer pursue the development of non-regulated, generating plants. 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 includes finding equity partners to assist in financing the continued growth of the businesses.

Safe Harbor for Forward Looking Statements.

The Company is including the following cautionary statement in this Form 10-Q 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 are all statements 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. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those expressed. Such risks and uncertainties include, among others, changes in the utility regulatory environment, the impact of regulatory and legislative decisions, the availability and prices of purchased power and natural gas, volatility and illiquidity in wholesale energy markets, wholesale and retail competition, weather conditions and various other matters, many of which are beyond the Company’s control. These forward-looking statements speak only as of the date of the report. The Company expressly undertakes no obligation to update or revise any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based. See “Safe Harbor for Forward Looking Statements” in the Company’s 2000 Form 10-K under Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Future Outlook.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See “Liquidity and Capital Resources: Business Risk.”

Part II. Other Information

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

The 2001 Annual Meeting of Shareholders of Avista Corp. was held on May 10, 2001. The election of five directors with expiring terms was the only matter voted upon at the meeting. There were 47,386,883 shares of common stock issued and outstanding as of March 20, 2001, the proxy record date, with 41,281,081 shares represented at said meeting. The results of the voting are shown below:

Director	For	Against or Withheld	Term Expires
Erik J. Anderson	40,232,270	1,048,811	2004
Kristianne Blake	40,249,239	1,031,842	2004
David A. Clack	40,058,257	1,222,824	2004
Bobby Schmidt	40,316,578	964,503	2004
Gary G. Ely	40,183,366	1,097,715	2003

Item 5. Other Information

Avista Utilities On February 27, 2001, Avista Corp. and the Spokane County Air Pollution Control Authority (SCAPCA) reached an agreement to extend the operating hours of Avista Utilities’ 60 MWH Northeast Combustion Turbine power plant (NECT) located in Spokane. The 90-day extended operating period began February 21, 2001 and was authorized by the SCAPCA under a special operating order called an Assurance of Discontinuance (AOD). The AOD allowed Avista Utilities to use the NECT to temporarily bring on added generating capacity for the benefit of its

customers and the region during a time of increased energy demand and continued energy market volatility. The NECT, which is a reserve unit, has an operating license that limits its use to a specified number of hours during times of peak power demand. Extended operation of the NECT was approved after SCAPCA determined, through air emission modeling and projections, that extended operation of the turbine would not adversely impact air quality.

On May 31, 2001, the SCAPCA issued a second AOD as a continuation of the previous order to allow for continued operation of the NECT with several conditions attached to the order. The operation of the NECT is contingent upon the continuation of an energy alert in Washington, a payment of $150 for each hour of operation paid into a mitigation fund for low-income energy assistance and the payment of $10,000 for each day of operation to fund an environmental offset project. The payment to the environmental offset project is due to the fact that emissions from the NECT exceed current permit limits during this period of extended operations. Avista Utilities has agreed to develop the environmental offset project to achieve future, verifiable emission reductions in Spokane’s federally designated non-attainment areas. The funding of the environmental offset project will be paid until new air pollution equipment is installed at the NECT and accepted by the SCAPCA. Under the first AOD, the Company obligated $900,000 in funds for the environmental offset project.

On May 1, 2001, the IPUC directed the Company to file testimony in response to a petition filed by Potlatch Corporation (Potlatch) with the IPUC requesting that the Commission require Avista Utilities to serve the entirety of its Lewiston facility’s electrical requirements (approximately 100 MW) at embedded cost rates. Since 1992 Potlatch has received service under a special contract for entities qualifying under the Public Utility Regulatory Policies Act of 1978 (PURPA) with none of its load served at average embedded cost rates. Additionally, 55 to 59 MW of the 100 MW being requested for service by Potlatch for service after January 1, 2002 would constitute “new load” for Avista Utilities, as Potlatch currently sells that amount of generation back to Avista Utilities under the present special contract. Potlatch would plan to sell their self-generation on the open market. Avista Utilities believes that previous Commission rulings require denial of Potlatch’s request for service at average embedded cost rates. Avista Utilities, in its April 12, 2001, response to Potlatch’s petition, alleges that the Commission’s intention in such a situation, is for the parties to negotiate a contract reflecting the marginal (incremental) costs of new resources to serve a load of this magnitude. In order to comply with Potlatch’s request, it would be necessary for Avista Utilities to acquire more new resources at incremental costs that are higher than Avista Utilities’ average embedded cost of service. On June 18, 2001 the Company filed testimony with the IPUC supporting the Company’s position. Hearings with the IPUC regarding this matter are scheduled for August 21, 2001.

Avista Labs On March 1, 2001, Avista Labs completed the formation of a new company, H2fuel, LLC, to develop and commercialize a new technology for manufacturing hydrogen for fuel cells. Avista Labs owns a 70 percent interest in H2fuel. The remaining interest is owned by Unitel Fuels Technologies, LLC. Avista Labs transferred its ongoing fuel processor development work to H2fuel.

During the three months ended June 30, 2001 Avista Labs achieved a key milestone by initiating commercial sales of its hydrogen-only fuel cells systems for various applications, primarily back-up power for the commercial market. By the end of 2001, Avista Labs expects to sell approximately 50 systems.

On June 27, 2001, Avista Labs announced the signing of an agreement with Maxwell Technologies to provide PowerCache ultracapacitors to optimize performance and reduce the cost of its unique, modular fuel cell systems and components. Avista Labs and Maxwell Technologies have entered a multi-year agreement and are exploring areas of mutual interest for a broader strategic relationship.

On July 27, 2001, Avista Labs announced the introduction of a hydrogen sensor product for fuel cell developers and other hydrogen users. The Avista Labs hydrogen sensor component detects hydrogen in varied applications and is believed to be a necessary component of any fuel cell system. The hydrogen sensor is the first to receive Underwriters Laboratories, Inc. recognition under UL standard 2075.

Regional Transmission Organizations (RTO) Avista Utilities and four other Western utilities have taken steps toward the formation of an Independent Transmission Company (ITC), TransConnect, which would serve six states. TransConnect would be a member of the planned regional transmission organization, RTO West, a non-profit entity. The new for-profit ITC company would own or lease the high voltage transmission facilities currently held by Avista Utilities, Montana Power Co., Portland General Electric Co., Nevada Power Co. and Sierra Pacific Power Co. A proposal was filed on October 17, 2000, in response to the FERC’s Order No. 2000, which requires 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. On April 25, 2001, the FERC issued the RTO West/ TransConnect order granting, with modifications, the companies' petition. Avista Utilities will be actively evaluating this order to determine the effects of the modifications and the impact to potential ITC development. Outcomes of this process must be resubmitted to the FERC by December 1, 2001. When 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.

Lake Coeur d' Alene Court 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. 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, the Company is continuing to evaluate the potential impact of this decision on the operation of its hydroelectric facilities on the Spokane River, downstream of Lake Coeur d' Alene. The United States District Court decision was affirmed by the Ninth Circuit Court of Appeals. The United States Supreme Court affirmed this decision on June 18, 2001. The effect this ruling may have on the Company is not known and can not be estimated at this time.

Spokane River PCBs On March 7, 2001, the Washington State Department of Ecology (DOE) informed Avista Development of a health advisory concerning PCBs found in fish caught in a portion of the Spokane River. On June 4, 2001 Avista Development received official notice as a potentially liable person with respect to contaminated sites on the Spokane River. The DOE discovered PCBs in fish and sediments in the 1970s and 1980s. In the 1990s, the DOE performed subsequent sampling of the river and identified potential sources of the PCBs, including the Spokane Industrial Park (SIP) and a number of other entities in the area. The SIP, which was renamed Pentzer Development Corporation (Pentzer Development) in 1990, operated a wastewater treatment plant at the site until it was closed in December 1993. The SIP's treatment plant discharged to the Spokane River under the terms of a National Pollutant Discharge Elimination System permit issued by the DOE. Pentzer Development sold the property in 1996 and merged with Avista Development in 1998. Avista Development filed a response to this notice on August 1, 2001.

Additional Financial Data

As of June 30, 2001, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately $1,046.5 million. Of such amount, $863.8 million represented long-term unsecured and unsubordinated indebtedness of the Company, and $183.5 million represented secured indebtedness of the Company. The balance represents indebtedness of subsidiaries and unamortized debt discount. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities.

The following table reflects the ratio of earnings to fixed charges:

	12 Months Ended	
	June 30, 2001	December 31, 2000
Ratio of Earnings to Fixed Charges	3.79(x)	3.26(x)

The Company has long-term purchased power arrangements with various Public Utility Districts and the interest expense components of these contracts are included in purchased power expenses. These interest amounts are not included in the fixed charges and would not have a material impact on fixed charges ratios.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

4(d)-2 Amended and Restated Credit Agreement dated as of May 31, 2001, among Avista Corporation, The Bank of New York, as Documentation Agent and Toronto Dominion (Texas), Inc., as Agent.

12 Computation of ratio of earnings to fixed charges and preferred dividend requirements.

(b) Reports on Form 8-K.

Dated May 2, 2001, regarding a settlement agreement related to the Company's power-cost deferral and recovery plan in Washington.

Dated July 18, 2001, regarding the filing for an electric surcharge in Washington and Idaho.

SIGNATURE

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

AVISTA CORPORATION
(Registrant)

Date: August 13, 2001

/s/ J. E. Eliassen

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

(Principal Accounting and
Financial Officer)

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AMENDED AND RESTATED

CREDIT AGREEMENT

dated as of May 31, 2001

among

AVISTA CORPORATION,

THE BANKS PARTY HERETO,

THE BANK OF NEW YORK,
as Documentation Agent

and

TORONTO DOMINION (TEXAS), INC.,
as Agent

TD SECURITIES (USA), INC.,
as Advisor, Sole Lead Arranger and
Sole Bookrunner

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TABLE OF CONTENTS

AMENDED AND RESTATED CREDIT AGREEMENT dated as of May 31, 2001, 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"), and THE BANK OF NEW YORK, as documentation agent (the "Documentation Agent").

Pursuant to the Pre-Restatement Credit Agreements (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 Agreements be amended, restated and combined 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 $220,000,000 at any time outstanding (subject to a possible increase to $260,000,000, 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.

"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 participation 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 BBB+ or greater by S&P; and Baa1 or greater by Moody's	0.000%	1.0000%	0.200%	1.0000%

Ratings	ABR Spread	Eurodollar Spread	Commitment Fee	Letter of Credit Participation Fees
Level 2 BBB by S&P; and Baa2 by Moody's	0.250%	1.250%	0.250%	1.250%
Level 3 BBB- by S&P; and Baa3 by Moody's	0.500%	1.500%	0.400%	1.500%
Level 4 BB+ by S&P; and Ba1 by Moody's	0.875%	1.875%	0.500%	1.875%
Level 5 Lower than BB+ by S&P; and lower than Ba1 by Moody's	1.250%	2.250%	0.700%	2.250%

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 (calculated as set forth in Section 2.07(e))	Utilization Fee
Level 1	.15%
>33% and [less than or equal to] 50%	
Level 2	.25%
>50% and [less than or 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.

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

"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 Closing Date to but excluding the earlier of the Expiration Date and the date of the termination of the Commitments.

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

"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; provided that when used in connection with a Eurodollar Loan the term "Business Day" shall also exclude any day on which banks are not open for dealings in deposits in dollars in the London interbank market.

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

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange

Commission thereunder as in effect on the date hereof), of shares representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Borrower; or (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Borrower by Persons who were neither (i) nominated by the board of directors of the Borrower nor (ii) appointed by directors so nominated; provided, that no event described in clause (a) or clause (b) shall constitute a "Change in Control" if the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and 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 Cash Flow" means, with respect to Avista Utilities or the Borrower and its consolidated subsidiaries, as applicable, for any four-fiscal-quarter period, Consolidated Net Income of (i) Avista Utilities or (ii) the Borrower and its consolidated subsidiaries, as applicable, for such period (excluding earnings from any subsidiaries which have contractual restrictions on distributions) plus, without duplication and, in the case of clauses (a), (b), (c), (d) and (f), to the extent deducted in computing such Consolidated Net Income, the sum for such period of (a) income tax expense, (b) interest expense, (c) depreciation and amortization expense, (d) any extraordinary or non-recurring losses, (e) any decrease (on an after-tax basis) in gas and electric deferrals as of the last day of such period from the gas and electric deferrals as of the date that is 12 months earlier, (f) other non-cash items reducing such Consolidated Net Income, and (g) all cash on the balance sheet as of the last day of such period (net of all outstanding

Loans), minus, without duplication and, in the case of clauses (i) and (iii), to the extent added in computing such Consolidated Net Income, the sum of for such fiscal period of (i) any extraordinary or non-recurring gains, (ii) any increase (on an after-tax basis) in gas and electric deferrals as of the last day of such period over gas and electric deferrals as of the date that is 12 months earlier and (iii) other non-cash items increasing such Consolidated Net Income, all as determined on a consolidated basis in accordance with GAAP.

"Consolidated Fixed Charges" means, with respect to (i) Avista Utilities or (ii) the Borrower and its consolidated subsidiaries, as applicable, for any four-fiscal-quarter period, the aggregate of all payments by Avista Utilities or the Borrower and its consolidated subsidiaries, as applicable, for such period, that, in accordance with GAAP, are or should be included in interest paid, net of amounts capitalized, and capital lease interest paid reflected in the statement of cash flows for Avista Utilities or the Borrower and its consolidated subsidiaries, as applicable, less the amount of capital lease interest paid to Avista Utilities or the Borrower or any consolidated subsidiary, as applicable, for such period that is not reflected in Consolidated Cash Flow of Avista Utilities or the Borrower and its consolidated subsidiaries, as applicable, for such period, all as determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Income" means, with respect to (i) Avista Utilities or (ii) the Borrower and its consolidated subsidiaries, as applicable, for any four-fiscal-quarter period, the net income or loss of Avista Utilities or the Borrower and its consolidated subsidiaries, as applicable, for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income of any person which has any contractual restriction on dividends and (b) the income or loss of any person accrued prior to the date it becomes a subsidiary or is merged into or consolidated with the Borrower or any applicable subsidiary or the date that such person's assets are acquired by the Borrower or any applicable subsidiary.

"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.

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

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

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

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

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

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

"Eurodollar Rate" shall mean, 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 May 29, 2002.

"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 other fees referred to in Section 2.07.

"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 addition, the date of any refinancing or conversion of such Borrowing with or to a Borrowing of a different Type, and (a) 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 (b) in the case of a Fixed Rate Borrowing or Delayed Fixed Rate Borrowing with an Interest Period of more than 90 days' duration (unless otherwise specified in the applicable auction Bid Request), each day prior to the last day of such Interest Period that occurs at intervals of 90 days' duration after the first day of such Interest Period, and any other dates that are specified in the applicable Auction Bid Request as Interest Payment Dates with respect to such Borrowing.

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

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

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

"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, limited liability company, organization, business, individual or government or governmental agency or political subdivision thereof.

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

"Pledge Agreement" shall mean the Amended and Restated Pledge Agreement dated the date hereof between the Borrower and the Agent relating to the pledge of all the outstanding Equity Interests in Avista Capital, Inc., to the Agent for the benefit of the Agent and the Banks.

"Pledge Release Date" shall mean the earlier of (a) the first date on which the Rating from S&P shall be not less than A- and the Rating from Moody's shall be not less than A3 and (b) the date on which the Borrower sells, transfers or otherwise disposes of all the Equity Interests in Avista Capital, Inc., in a transaction not prohibited by this Agreement.

"Pre-Restatement Credit Agreements" shall mean each of the Revolving Credit Agreement ($120,000,000) (364 Day) and the Revolving Credit Agreement ($140,000,000) (364 Day), in each case, among the Borrower, the banks named therein, Toronto Dominion (Texas), Inc., Bank of America, N.A., and The Bank of New York, dated as of June 26, 2000, and as in effect prior to its amendment, restatement and combination 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.

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

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

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

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

"subsidiary" shall mean, for any person (the "Parent"), any corporation, partnership or other entity of which securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other

persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) are at the time directly or indirectly owned or controlled by the Parent or one or more of its subsidiaries or by the Parent and one or more of its subsidiaries.

"Subsidiary" shall mean a subsidiary of the Borrower.

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

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

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

(c) any Significant Subsidiary shall:

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

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

(ii) sell, lease, transfer, assign or 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 (vi) 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.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that if the Borrower notifies the Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Agent notifies the Borrower that the Required Banks request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II. THE CREDITS

SECTION 2.01. Commitments. (a) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank agrees, severally and not jointly, to make 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 Exposures plus the aggregate principal amount of outstanding Auction Loans exceeding the total Commitments.

(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 in an aggregate amount not in excess of $40,000,000 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.

(c) Within the limits set forth in the preceding sentence, the Borrower may borrow, pay or prepay and reborrow Revolving Loans on or after the date of this Agreement and prior to the Expiration Date, subject to the terms, conditions and limitations set forth herein.

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

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

(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 # 121000358, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the 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 12:00 (noon), New York City time, three Business Days before

a proposed borrowing and (b) in the case of an ABR Borrowing, not later than 12:00 (noon), New York City time, the day of a proposed borrowing. Such notice shall be irrevocable and shall in each case refer to this Agreement and specify (i) whether the Borrowing then being requested is to be a Eurodollar Borrowing or an ABR Borrowing; (ii) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (iii) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If the Borrower shall not have given notice in accordance with this Section 2.03 of its election to refinance a Borrowing 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 Exposures 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 $50,000,000 and (ii) the sum of the total Revolving Credit Exposures 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 at the Applicable Rate (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be 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 Closing 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 Closing 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 Closing 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.

(d) The Borrower agrees to pay the Agent, for its own account, $1,000 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, the Borrower shall pay to the Administrative Agent for the account of each Bank a utilization fee (a "Utilization Fee") on the aggregate amount on such day of such Bank's outstanding Loans and such Bank's Applicable Percentage of the LC Exposure at a rate per annum equal to the Applicable Rate in effect for such day based on the percentage of the outstanding total Commitments represented on such day by the aggregate outstanding principal amount of Loans and the total LC Exposures. The Utilization Fees, if any, in respect of any fiscal quarter shall be payable in arrears on the first Business Day following 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 Exposures 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 Exposures 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. It is acknowledged that this Agreement is being entered into by the Banks on the understanding that the Banks will not be required to maintain capital against their Commitments under currently applicable laws, regulations and regulatory guidelines. In the event Banks shall be advised by any Governmental Authority or shall otherwise determine on the basis of pronouncements of any Governmental Authority that such understanding is incorrect, it is agreed that the Banks will be entitled to make claims under this paragraph based upon market requirements prevailing on the date hereof for commitments under comparable credit facilities against which capital is required to be maintained.

(b) If any Bank shall have determined that the applicability of any law, rule, regulation, agreement or guideline adopted after the date hereof regarding capital adequacy, or any change in any of the foregoing or the adoption after the date hereof of any change in any law, rule, regulation, agreement or guideline existing on the date hereof or in the interpretation or administration of any of the foregoing by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any lending office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement or the Loans made by such Bank pursuant hereto to a level below that which such Bank or such Bank's holding company could have achieved but for such applicability, adoption, change or compliance (taking into consideration such Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

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

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

SECTION 2.14. Change in Legality. (a) Notwithstanding any other provision herein, if any change in, or adoption of, any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any

Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Agent, such Bank may:

(i) declare that Eurodollar Loans will not 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 Fannin, 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 of Taxes (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 of Taxes been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to receive with respect to the rights assigned, participated or other wise transferred except to the extent that such greater payment arises from circumstances not in existence at the time such assignment, participation or transfer shall have been made.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made 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 any 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 (other than interest included in such refund); provided that the Borrower, upon the request of such Bank or the Issuing Bank (or such Transferee) or the 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 received by the Borrower 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 not a United States Person within the meaning of Section 770(a)(30) of the Code (a "Non-U.S. Person") shall, if legally able to do so, deliver to the Borrower and the Agent (i) one duly completed and executed copy of United States Internal Revenue Service Form W-8BEN or W-8ECI, (ii) if claiming exemption from United States Federal withholding tax pursuant to Sections 871(h) or 881(c) of the Code, one duly completed and executed copy of a United States Internal Revenue Service Form W-8BEN and a certificate representing that such Non-U.S. Person

is not a bank for purposes of Section 881(c) of the Code, is not a 10-percent shareholder (within the meaning of Section 871(h)(3)(b) of the Code) of the Borrower and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code) or (iii) any successor applicable form of any thereof, establishing in each case that such Bank or Issuing Bank (or Transferee) is entitled to receive payments hereunder payable to it without deduction or withholding of any United States Federal income taxes, or subject to a reduced rate thereof. Unless the Borrower and the 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 cancelation on or prior to the date of such termination or assignment.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

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

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

SECTION 3.02. Authorization. The execution, delivery and performance by the Borrower of each of the Loan Documents and the borrowings hereunder (collectively, the "Transactions") (a) have been duly authorized by all requisite corporate and, if required, stockholder action and (b) will not (i) violate (A) any provision of law, statute, rule or regulation the violation of which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Borrower or any Significant Subsidiary, (B) any order of any Governmental Authority the violation of which could reasonably be expected to impair

the validity or enforce ability of this Agreement or any other Loan Document, or materially impair the rights of or benefits available to the Banks under the Loan Documents, or (C) any provision of any indenture or other material agreement or instrument evidencing or relating to borrowed money to which the Borrower or any Significant Subsidiary is a party or by which any of them or any of their property is or may be bound in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents, (ii) be in conflict with, result in a breach of or constitute (alone or with notice or lapse of time or both) a default under any such indenture, agreement or other instrument in a manner which could reasonably be expected to impair the validity and enforceability of this Agreement or any other Loan Document or materially impair the rights of or benefits available to the Banks under the Loan Documents or (iii) result in the creation or imposition under any such indenture, agreement or other instrument of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower.

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

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

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 2000, audited by and accompanied by the opinion of Deloitte & Touche LLP, independent public accountants, and as of and for the three-month fiscal period ended March 31, 2001, certified by a Financial Officer of the Borrower. 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, 2000, 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, 2000, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2001 and in any document filed after March 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there has been no change in the business, assets, operations or financial condition of the Borrower and the Subsidiaries, taken as a whole, since December 31, 2000, 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, 2000, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2001 or in any document filed after March 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated, individually or in the aggregate, to result in a Material Adverse Effect.

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

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

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

SECTION 3.09. Investment Company Act; Public Utility Holding Company Act. The Borrower is not (a) an "investment company" as defined in, or subject

to regulation under, the Investment Company Act of 1940 or (b) subject to regulation as a "holding company" under the Public Utility Holding Company Act of 1935.

SECTION 3.10. 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, 2000, in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2001 and in any document filed after March 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934; provided, however, that the inclusion of such matters, circumstances or events as exceptions (or any other exceptions contained in the representations and warranties which refer to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, the Borrower's Form 10-Q for the fiscal quarter ended March 31, 2001 or in any document filed after March 31, 2001, but prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

SECTION 3.14. 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 an 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 the favorable written opinion of Heller Ehrman White & McAuliffe, LLP, counsel to the Borrower, dated the date of this Agreement and addressed to the Banks, to the effect set forth in Exhibit D 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 upfront fees payable in connection with the Commitments as specified in the invitation letter dated April 19, 2001, and all Fees accrued to the date hereof under each Pre-Restatement Credit Agreement whether or not then due.

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

(h) The Agent shall have received a counterpart duly executed by the Borrower of the Pledge Agreement, together with one or more certificates representing all the Equity Interests in Avista Capital, Inc., and stock powers, endorsed in blank, with respect to each such certificate.

ARTICLE V. AFFIRMATIVE COVENANTS

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

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

(b) Do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names utilized in the conduct of the Borrower's business except where the failure so to obtain, preserve, renew, extend or maintain any of the foregoing would not result in a Material Adverse Effect; maintain and operate such business in substantially the manner in which it is presently conducted and operated, except as otherwise expressly permitted under this Agreement; comply in all material respects with all applicable laws, rules, regulations and orders of any Governmental Authority, whether now in effect or hereafter enacted if failure to comply with such requirements would result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; provided, however, that the Borrower may cause the discontinuance of the operation or a reduction in the capacity of any of its facilities, or any element or unit thereof including, without limitation, real and personal

properties, facilities, machinery and equipment, (i) if, in the judgment of the Borrower, it is no longer advisable to operate the same, or to operate the same at its former capacity, and such discontinuance or reduction would not result in a Material Adverse Effect, or (ii) if the Borrower intends to sell and dispose of its interest in the same in accordance with the terms of this Agreement and within a reasonable time shall endeavor to effectuate the same.

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

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

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

(a) within 105 days after the end of each fiscal year, consolidated and consolidating balance sheets and related statements of income and statements of cash flow, showing the financial condition of (i) Avista Utilities and (ii) the Borrower and its consolidated Subsidiaries, in each case as of the close of such fiscal year, and the results of each of their operations during such year, all (A) in the case of Avista Utilities, certified by one of the Borrower's Financial Officers

as fairly presenting the financial condition and results of operations of Avista Utilities in accordance with GAAP consistently applied and (B) in the case of the Borrower and its consolidated subsidiaries, audited by Deloitte & Touche or other independent public accountants of recognized national standing acceptable to the Required Banks and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower on a consolidated basis (except as noted therein) in accordance with GAAP consistently applied;

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

(c) concurrently with any delivery of financial statements under (a) or (b) above, (i) a certificate of the relevant accounting firm opining on or certifying such statements or Financial Officer (which certificate, when furnished by an accounting firm, may be limited to accounting matters and disclaim responsibility for legal interpretations) certifying that to the knowledge of the accounting firm or the Financial Officer, as the case may be, no Event of Default or Default has occurred or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto, and (ii) a certificate of a Financial Officer setting forth in reasonable detail such calculations as are required to establish whether the Borrower was in compliance with Sections 6.04 and 6.05 on the date of such financial statements;

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

(e) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Significant Subsidiary, or compliance with the terms of any Loan Document, as the 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. Pledge of Avista Capital, Inc. At all times prior to the Pledge Release Date, cause Avista Capital, Inc., to remain engaged in the businesses in which it is engaged on the date hereof (except as a result of the disposition of any such business to a person that is not an Affiliate of the Borrower) and not permit Avista Capital, Inc., to pay or make any dividends or distributions (other than cash dividends or distributions of its income in the ordinary course of business), to merge or consolidate with any Affiliate of the Borrower or to transfer any material assets other than on arm's-length terms to any Affiliate of the Borrower, in each case where such transaction would materially reduce the value as collateral of the capital stock of Avista Capital, Inc., pledged under the Pledge Agreement, provided that Avista Capital, Inc., may transfer any or all the assets owned by it or any of its subsidiaries that relate to the Coyote Springs 2 project to the Borrower or any of its Subsidiaries.

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. (A) 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, 2000, 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; and

(aa) cash collateral contemplated under Section 2.06(i), the pledge of Avista Capital, Inc. stock under the Pledge Agreement and Liens granted to the Banks pursuant to Section 6.01(C).

Notwithstanding anything contained in clauses (a) through (aa) of this Section 6.01, the Borrower shall not permit any Lien to be created, incurred or assumed at any time after the date hereof in respect of any asset of the Borrower or any Subsidiary or on any income or revenue or rights in respect of any thereof (other than (i) in connection with the Coyote Springs 2 project or (ii) Liens securing project financing Indebtedness for any project that is non-recourse to the Borrower and to any of its Subsidiaries other than any special purpose Subsidiary engaged solely in the business of such project), if the aggregate outstanding principal amount of all the Indebtedness so secured or securitized by all such Liens (other than Liens referred to in clauses (i) and (ii) of the immediately preceding parenthetical) arising after the date hereof, when taken together with the Attributable Debt outstanding in connection with any sale and leaseback transaction entered into under (B) below after the date hereof, would exceed 5% of the total tangible assets of Avista Utilities as of the date of the financial statements most recently delivered under Section 5.04(a) or (b) at such time.

(B) Enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred, if as a result thereof the final sentence of Section 6.01(A) would be breached.

(C) At any time that the Borrower's 9.75% Senior Notes due June 1, 2008, or any other medium term notes of the Borrower (other than notes issued under the First Mortgage) are required to be secured by any assets of the Borrower or any of its Subsidiaries, or shall benefit from any Guarantee or other form of credit enhancement provided by the Borrower or any of its Subsidiaries, the Borrower shall cause the obligations under the Loan Documents to be secured by or to benefit from all such

collateral and each such Guarantee or other form of credit enhancement on a ratable basis with the holders of such notes and any other creditors entitled to share therein.

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 Equity Interests in any person who immediately thereafter is a Subsidiary, (c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation, or in the case of a merger or consolidation in which the Borrower is not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baa1 or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or

gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.03. Disposition of Assets. Sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions), in any fiscal year, assets (whether now owned or hereafter acquired) which, together with the amount of all sales, leases, transfers, assignments or other dispositions permitted under clause (c)(ii) of the definition of Subsidiary Event in Article I (other than sales, leases, transfers, assignments or other dispositions permitted under clauses (c)(ii) (A) through (C) in such definition), exceed 10% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, except (i) the Borrower may, in any fiscal year, sell, lease, transfer, assign or otherwise dispose of assets in the ordinary course of business which, together with the amount of all sales, leases, transfers, assignments or other dispositions in the ordinary course permitted under clause (c)(ii)(A) of the definition of Subsidiary Event in Article I, do not exceed 5% of the assets of the Borrower and its Subsidiaries as of the end of the most recent fiscal year, computed and consolidated in accordance with GAAP consistently applied, (ii) to the extent permitted under Section 5.03, 6.01 or Section 6.02, (iii) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interest in the Washington Public Power Supply System Nuclear Project No. 3 in accordance with the settlement agreement among the Borrower, the Washington Public Power Supply System and Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interests in the Colstrip Project and related assets, (v) Avista Energy may conduct its trading operations, (vi) the Borrower may dispose of all or any portion of its transmission assets in one or more RTO Transactions, and (vii) 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.

SECTION 6.05. Consolidated Fixed Charge Coverage Ratio. Permit the ratio of Consolidated Cash Flow to Consolidated Fixed Charges for any

four-fiscal-quarter period ending on any date set forth below to be less for Avista Utilities or for the Borrower and its consolidated subsidiaries than the ratio set forth below:

Quarter End	Avista Utilities	Borrower
6/30/2001	1.25	1.00
9/30/2001	1.25	1.00
12/31/2001	1.25	1.00
3/31/2002	1.50	1.50

SECTION 6.06. 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 6.07. Investments. (a) 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.

(b) Purchase or acquire any Equity Interests in, make any loan or advance to, Guarantee any obligation of (in addition to any Guarantee under Section 6.07(a)), or make any investment or other investment in, any Subsidiary if after giving effect thereto the aggregate amount of all such investments purchased, acquired or made during the period January 1 through December 31, (i) 2001, would exceed $100,000,000, or (ii) 2002, would exceed $75,000,000.

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), 5.05 or 5.09 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)(l) of the Code), shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the Borrower to the PBGC or to a Plan in

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

(k) there shall occur a Subsidiary Event;

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

(m) 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 leveraged" or assigned any similar or successor classification, and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Banks by the Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by the

Borrower; provided, however, that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

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

The Agent may execute any of its duties under this Agreement by or through agents or attorneys selected by them using reasonable care and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys selected and authorized to act by it with reasonable care unless the damage complained of directly results from an act or failure to act on part of the Agent which constitutes gross negligence or wilful misconduct. Delegation to an attorney or agent shall not release the Agent from its obligation to perform or cause to be performed the delegated duty.

The Documentation Agent 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" 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 and the amendment and restatement reflected hereby 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 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 $3,500 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 "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans and of the Letters of Credit (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit) or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any

Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

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

SECTION 9.06. Right of Setoff. If an Event of Default shall have occurred and be continuing and the Loans shall have been accelerated as set forth in Article VII, each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Bank (or bank Controlling such Bank) to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement and other Loan Documents held by such Bank. The rights of each Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which such Bank may have. Any Bank shall provide the Borrower with written notice promptly after exercising its rights under this Section.

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

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

paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan or LC Disbursement, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each 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.

SECTION 9.16. Pledge Release Date. Promptly after the Pledge Release Date, the Agent shall (and the Banks hereby authorize and instruct the Agent to) take such action and execute any such documents as may reasonably be requested by the Borrower to release the Lien of the Pledge Agreement.

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

AVISTA CORPORATION,

by /s/ Ronald R. Peterson

Name: Ronald R. Peterson
Title: Vice President & Treasurer

TORONTO DOMINION (TEXAS), INC.,
Individually and as Agent,

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: Manager Syndication &
Credit Administration

THE BANK OF NEW YORK, individually
and as Documentation Agent,

by /s/ Steven Kalachman

Name: Steven Kalachman
Title: Vice President

BANK OF AMERICA N.A.

by /s/ Leonard Russo

Name: Leonard Russo
Title: Managing Director

BANK HAPOALIM, B.M.

by /s/ Marc Bosc

Name: Marc Bosc
Title: Vice President

by /s/ Conrad Wagner

Name: Conrad Wagner
Title: First Vice President

BNP PARIBAS

by /s/ Mark A. Renaud

Name: Mark A. Renaud
Title: Director

by /s/ Dan Cozine

Name: Dan Cozine
Title: Managing Director

FLEET NATIONAL BANK

by /s/ Suresh V. Chivukula

Name: Suresh V. Chivukula
Title: Managing Director

UNION BANK OF CALIFORNIA, N.A.

by /s/ Sonja Sevcik

Name: Sonja Sevcik
Title: Assistant Vice President

U.S. BANK, NATIONAL ASSOCIATION

by /s/ Wilfred C. Jack

Name: Wilfred C. Jack
Title: Vice President

WELLS FARGO BANK

by /s/ Tom Beil

Name: Tom Beil
Title: Vice President

Exhibit A

FORM OF
NOTE

$_____ May 31, 2001
New York, New York

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 Fannin, Suite 1700, Houston, Texas 77010, on the Expiration Date, as defined in the Amended and Restated Credit Agreement dated as of May 31, 2001 (the "Credit Agreement"), among the Borrower, the Banks party thereto 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, 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 Principal Interest	Unpaid Principal Balance of Note	Name of Person Making Notation

Exhibit B

FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Amended and Restated Credit Agreement dated as of May 31, 2001 (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 $3,500.

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: _____	By: _____
Name:	Name:
Title:	Title:
_____ , as Assignee	AVISTA CORPORATION
By: _____	By: _____
Name:	Name:
Title:	Title:

Exhibit C

FORM OF
ADMINISTRATIVE QUESTIONNAIRE

Exhibit D

FORM OF
OPINION OF COUNSEL FOR THE BORROWER

SCHEDULE 2.01

COMMITMENTS

Banks

Bank	Commitment
Toronto Dominion (Texas), Inc. 909 Fannin 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: Deborah Gravinese Telecopy: (212) 827-7244	$40,000,000
Bank Hapoalim B.M. 1177 Avenue of the Americas New York, NY 10036 Attention: Marc Bosc Telecopy: (212) 782-2382	$10,000,000
Bank of America, N.A. Three Allen Center Office 333 Clay Street Houston, TX 77002 Attention: Irene Rummel Telecopy: (713) 651-4801	$25,000,000
BNP Paribas 787 Seventh Avenue New York, NY 10019 Attention: Thomas Beaumont Telecopy: (212) 841-2052	$10,000,000

Fleet National Bank 100 Federal Street Boston, MA 02211 Attention: Suresh Chivukula Telecopy: (617) 434-3652	$30,000,000
The Bank of New York One Wall Street New York, NY 10286 Attention: Steve Kalachman Telecopy: (212) 635-7923	$40,000,000
U.S. Bank, N.A. 1420 Fifth Avenue, 11th Floor Seattle, WA 98101 Attention: Fred Jack Telecopy: (206) 344-3654	$20,000,000
Union Bank of California, N.A. 445 S. Figueroa Street Los Angeles, CA 90071 Attention: Sonja Seveik Telecopy: (213) 236-4096	$20,000,000
Wells Fargo Bank 524 W. Riverside Spokane, WA 99201 Attention: Tom Beil Telecopy: (509) 455-5762	$25,000,000
TOTAL	$220,000,000

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.

EXHIBIT 12

AVISTA CORPORATION

Computation of Ratio of Earnings to Fixed Charges
and Preferred Dividend Requirements
Consolidated
(Thousands of Dollars)

	12 Mos. Ended June 30, 2001	Years Ended December 31			
		2000	1999	1998	1997
Fixed charges, as defined:					
Interest on long-term debt	$ 85,052	$ 65,314	$ 62,032	$ 66,218	$ 63,413
Amortization of debt expense and premium - net	4,035	3,409	3,044	2,859	2,862
Interest portion of rentals	4,416	4,324	4,645	4,301	4,354
Total fixed charges	$ 93,503	$ 73,047	$ 69,721	$ 73,378	$ 70,629
Earnings, as defined:					
Net income from continuing ops	$154,775	$ 91,679	$ 26,031	$ 78,139	$114,797
Add (deduct):					
Income tax expense	105,992	73,461	16,740	43,335	61,075
Total fixed charges above	93,503	73,047	69,721	73,378	70,629
Total earnings	$354,270	$238,187	$112,492	$194,852	$246,501
Ratio of earnings to fixed charges	3.79	3.26	1.61	2.66	3.49
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 93,503	$ 73,047	$ 69,721	$ 73,378	$ 70,629
Preferred dividend requirements (1)	4,099	42,753	35,149	13,057	8,261
Total	$ 97,602	$115,800	$104,870	$ 86,435	$ 78,890
Ratio of earnings to fixed charges and preferred dividend requirements	3.63	2.06	1.07	2.25	3.12

(1) Preferred dividend requirements have been grossed up to their pre-tax level