UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999 OR

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

COMMISSION FILE NUMBER 1-3701

AVISTA CORPORATION

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

Title of Class
Preferred Stock, Cumulative, Without Par Value

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

Yes [X] No [ ]

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

The aggregate market value of the Registrant's outstanding Common Stock, no par value (the only class of voting stock), held by non-affiliates is $1,414,713,252.02, based on the last reported sale price thereof on the consolidated tape on February 29, 2000.

At February 29, 2000, 47,058,286 shares of Registrant's Common Stock, no par value (the only class of common stock), were outstanding.

Documents Incorporated By Reference

Document	Part of Form 10-K into Which Document is Incorporated
Proxy Statement to be filed in connection with the annual meeting of shareholders to be held May 11, 2000	Part III, Items 10, 11, 12 and 13

INDEX

Part III

Part IV

* = not an applicable item in the 1999 calendar year for the Company

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

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

PART I

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

ITEM 1. BUSINESS

COMPANY OVERVIEW

Avista Corporation (Avista Corp., or the Company), was incorporated in the State of Washington in 1889, and is an energy, information and technology company with utility and subsidiary operations located throughout North America. At December 31, 1999, the Company's employees included 1,524 people in its utility operations and approximately 600 people in its subsidiary businesses. The Company's corporate headquarters are in Spokane, Washington, which serves as the Inland Northwest's center for manufacturing, transportation, health care, education, communication, agricultural and service businesses.

Regulatory, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company's strategy is to focus on continuing its growth as a leading provider of energy, and information and technology services.

The Company seeks to maintain a strong, low-cost utility business as well as to focus on growing Avista Advantage, Inc. (Avista Advantage), Avista Labs, Inc. (Avista Labs) and Avista Communications, Inc. (Avista Communications), which are its internet, technology and communication subsidiaries, respectively. The Company intends to continue investing in the development of these growth subsidiaries while continuing to search for opportunities to grow its utility business and increase its asset and customer base. Key strengths of the Company include its position as a leading e-commerce portal for energy/facility management and patented web-based programming, a developer of innovative fuel cell technology, and a regional provider of telecommunications and fiber optics services, as well as being one of the lowest cost producers of power in the nation.

Locally. Part of the Company's strategy for 1999 was to expand the utility service territory through acquisitions, but the lack of economically feasible acquisition opportunities and the uncertainty of favorable state commission approvals led to a change in strategies. The Company decided to concentrate on other growth avenues, such as the information and technology businesses, to generate shareholder value. However, the Company will selectively add to its already strong foundation of state-regulated utility assets, solidifying its position as a leading supplier of low-cost electric and natural gas energy services, if the right opportunities arise. The Company will also continue to grow its rate base through customer growth and capital expenditures.

Regionally. The Company plans to concentrate on growing its telecommunications and fiber optic business as part of its overall strategic focus on generating shareholder value. In addition, the Company plans to add to its regulated and non-regulated energy-related assets on a regional basis as the industry consolidates to further optimize its assets and create greater economies of scale. The growth is expected to be driven by the Company's significant base of knowledge and experience in the operation of physical systems - for both electric energy and natural gas - in the region, as well as its relationship-focused approach to the customer.

Nationally. The Company will seek to expand its customer base through the growth of Avista Advantage, with its Internet-based specialty billing and information services, and Avista Labs, with its innovative fuel cell technologies, as part of its overall strategic focus on generating shareholder value.

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

The Company's operations are organized into four lines of business - Avista Utilities, Energy Trading and Marketing, Information and Technology, and Pentzer and Other. Avista Utilities, an operating division of Avista Corp., represents the regulated utility operations that are responsible for retail electric and natural gas distribution, electric transmission services, electric generation and production, electric wholesale marketing, and electric commodity trading, primarily for the purpose of optimizing system resources. Avista Capital, a wholly owned subsidiary of Avista Corp., owns all of the subsidiary companies engaged in the other lines of business. The Energy Trading and Marketing line of business includes Avista Energy, Inc. (Avista Energy), Avista Power, LLC. (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). See Item 1. Business - Energy Trading and Marketing and Notes 1, 2, 4 and 5 of Notes to Financial Statements for additional information. The Information and Technology line of business includes Avista Advantage, Avista Labs and Avista Communications. The Pentzer and Other line of business includes Pentzer Corporation (Pentzer), Avista Development, Inc. (Avista Development) and Avista Services, Inc. (Avista Services). Pentzer's business strategy has been to acquire controlling interests in a broad range of middle market companies, facilitate improved productivity and growth, and ultimately sell such companies to the public or a strategic buyer. Beginning in 2000, Pentzer will refocus its investment efforts on emerging energy-related technology and information companies. (See Item 1. Business - Pentzer and Other and Notes 1 and 23 of Notes to Financial Statements for additional information.) As of December 31, 1999, the Company had common equity investments of $163.4 million ($426.7 million including convertible securities) and $230.1 million in Avista Utilities and Avista Capital, respectively.

The Company changed the way it reports business segments in this Form 10-K from the 1998 Form 10-K. In the 1998 Form 10-K and the quarterly Form 10-Q reports for 1999, the Company reported Avista Utilities information by its two separate lines of business - (1) Energy Delivery and (2) Generation and Resources. The National Energy Trading and Marketing line of business included results of Avista Energy, Avista Advantage and Avista Power. The Non-Energy line of business included Pentzer and all of the remaining subsidiaries' activities. The business segment presentation in this Form 10-K reflects the basis currently used by the Company's management to analyze performance and determine the allocation of resources. Avista Utilities' business is now managed based on the total regulated operations, not by individual segments. The Energy Trading and Marketing line of business changed its focus from a national emphasis to a regional effort, but its operations are non-regulated, as opposed to Avista Utilities' operations. The Information and Technology line of business reflects the current efforts of the Company to grow those businesses and focus on generating shareholder value. Pentzer and Other reports on the other non-utility operations of various subsidiaries.

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

Avista Advantage -	A leading provider of Internet-based specialty billing and information services.
Avista Labs -	The developer of proton exchange membrane fuel cell technology.
Avista Communications -	A Competitive Local Exchange Carrier (CLEC) that provides local facilities-based telecommunications solutions, and designs, builds and manages metropolitan area fiber optic networks. Avista Capital owned 71% at December 31, 1999.
Avista Energy -	An electricity and natural gas marketing and trading company.
Avista Power -	Created to develop and own electricity generation and/or natural gas fuel storage assets in strategic locations throughout the West. If Avista Power creates projects that STEAG AG, a German independent power producer, wants to partner with, such projects will be done under Avista-STEAG, LLC.
Pentzer -	A private investment company wholly owned by Avista Capital.
Avista Development -	Real-estate and other investments.
Avista Services -	A non-regulated marketing arm of Avista Utilities, which offers value-added products and services to existing utility customers.

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

[FLOW CHART]

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

For the twelve months ended December 31, 1999, 1998 and 1997, respectively, the Company derived operating revenues, gross margins and pre-tax income/(loss) from operations in the following proportions:

	Operating Revenues			Gross Margins			Income/(Loss) from Operations (pre-tax)		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
Avista Utilities	14%	29%	68%	105%	89%	97%	455%	83%	94%
Energy Trading and Marketing	84%	65%	19%	(5)%	11%	3%	(312)%	13%	4%
Information and Technology	0%	0%	0%	n/a	n/a	n/a	(42)%	(3)%	(3)%
Pentzer and Other	2%	6%	13%	n/a	n/a	n/a	(1)%	7%	5%

n/a - not applicable

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

AVISTA UTILITIES

GENERAL

Avista Utilities provides electricity and natural gas distribution and transmission services in a 26,000 square mile area in eastern Washington and northern Idaho with a population of approximately 835,000. It also provides natural gas distribution service in a 4,000 square mile area in northeast and southwest Oregon and in the South Lake Tahoe region of California, with the population in these areas approximating 500,000. At the end of 1999, retail electric service was supplied to approximately 309,000 customers in eastern Washington and northern Idaho; retail natural gas service was supplied to approximately 269,000 customers in parts of Washington, Idaho, Oregon and California. Avista Utilities anticipates residential and commercial electric load growth to average approximately 2.8% annually for the next five years primarily due to expected increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis. The Company also expects natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.4% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.6% growth annually during that same period. The natural gas load growth is primarily due to expected conversions from electric space and water heating to natural gas, and increases in both population and the number of businesses in its service territories. These electric and natural gas load growth projections are based on purchased baseline economic forecasts, publicly available studies, and internal analysis of company-specific data, such as energy consumption patterns and internal business plans. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Future Outlook for additional information.

Besides providing electricity and natural gas distribution and electric transmission services, Avista Utilities is also responsible for electric generation and production, electric wholesale marketing, and electric commodity trading, primarily for the purpose of optimizing system resources. Wholesale marketing and trading activities are primarily within the Western Systems Coordinating Council (WSCC). Avista Utilities owns and operates eight hydroelectric projects, a wood-waste fueled generating station and two natural gas combustion turbine (CT) peaking units. It also owns a 17.5% and a 15% share in two coal-fired generating facilities and leases two additional gas CT peaking units. With this diverse energy resource portfolio, Avista Utilities remains one of the nation's lowest-cost producers and sellers of electric energy services. See Item 2. Properties - Generating Plants for additional information.

Avista Utilities' wholesale marketing and trading activities are a secondary, but very important, part of Avista Utilities' overall business strategy. Since 1987, Avista Utilities has entered into a number of long-term power sales contracts that have increased its electric wholesale revenues, and it is continuing to pursue electric wholesale marketing business and energy trading opportunities. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Wholesale sales are affected by weather and streamflow conditions and may eventually be affected by the restructuring of the electric utility industry. Electric commodity trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy, primarily for the purpose of optimizing system resources. See Industry Restructuring for additional information.

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

Avista Corp., through its Avista Energy subsidiary, also pursues energy trading activities; however, Avista Energy's activities are not subject to state and federal price regulation.

Challenges facing Avista Utilities include cost management, evolving technologies, self-generation and fuel switching by commercial and industrial customers, the costs of increasingly stringent environmental laws and the potential for stranded or non-recoverable utility assets. Avista Utilities believes it faces minimal risk for stranded utility assets resulting from deregulation due to its low-cost generation portfolio. In a deregulated environment, however, evolving technologies that provide alternate energy supplies could affect the market price of power, and certain generating assets could have capital and operating costs above the adjusted market price. See Industry Restructuring and Note 1 of Notes to Financial Statements for additional information.

ELECTRIC REQUIREMENTS

Avista Utilities' 1999 annual peak requirements, including long-term and short-term contractual obligations, were 4,632 MW. This peak occurred on December 13, 1999, at which time the maximum capacity available from Avista Utilities' generating facilities, including long-term and short-term purchases, was 4,831 MW. The electric requirements include both retail distribution needs and wholesale short-term and long-term commitments, which limits the amount of excess capacity available to support its energy trading business and, therefore, results in the need to purchase power.

ELECTRIC RESOURCES

Avista Utilities' diverse resource mix of hydroelectric projects, thermal generating facilities, and power purchases and exchanges, combined with strategic access to regional electric transmission systems, enables it to remain one of the nation's lowest-cost producers and sellers of electric energy services. At December 31, 1999, Avista Utilities' total owned resources available were 58% hydroelectric and 42% thermal. See Avista Utilities' Electric Operating Statistics on page 9 for Avista Utilities' energy resource statistics.

Hydroelectric Resources Hydroelectric generation is Avista Utilities' lowest cost source of electricity and the availability of hydroelectric generation has a significant effect on its total energy costs. Under average operating conditions, Avista Utilities meets about one-third of its total energy requirements (both retail and long-term wholesale) with its own hydroelectric generation and long-term hydroelectric contracts. The streamflows to company-owned hydroelectric projects were 112%, 93% and 169% of normal in 1999, 1998 and 1997, respectively. Total hydroelectric resources provide 618 aMW annually.

Thermal Resources Avista Utilities has an interest in each of two twin-unit coal-fired facilities - a 17.5% interest in the Centralia Power Plant in western Washington and a 15% interest in Units 3 and 4 of the Colstrip Generating Project in southeastern Montana. Avista Utilities purchased Portland General Electric's 2.5% interest in Centralia in December 1999, adding to its previous 15% interest. This additional interest in currently being held as non-utility property until the outcome of the pending sale is determined. In addition, Avista Utilities owns a wood-waste-fired facility known as the Kettle Falls Generating Station in northeastern Washington and two natural gas-fired CTs, located in Spokane, used for peaking needs. Avista Utilities also operates and leases two natural gas-fired CTs in northern Idaho, used for peaking needs. Total thermal resources provide 383 aMW annually.

Centralia, which is operated by PacifiCorp, is supplied with coal under both a fuel supply agreement in effect through December 2020 and various spot market purchases. In 1999, 1998 and 1997, Centralia provided approximately 37%, 37% and 38%, respectively, of Avista Utilities' thermal generation. In May 1999, the owners of the Centralia Power Plant announced an agreement to sell the plant to TransAlta, a Canadian company. Regulatory approvals have been received from the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission (IPUC). The Company is reviewing the terms of these approvals to determine whether to agree to the sale. Avista Utilities will require additional generating capacity if the sale is finalized. If TransAlta becomes the new owner, it has agreed to replace Avista Utilities' lost output for three years through a purchase agreement. See Environmental Issues for additional information about the pending sale.

Colstrip is supplied with fuel under coal supply and transportation agreements in effect through December 2019 from adjacent coal reserves. The Montana Power Company sold its interest in the Colstrip Generating Project to PP&L Global, which is now the operator of Colstrip. In 1999, 1998 and 1997, Colstrip provided approximately 48%, 46% and 47% of Avista Utilities' thermal generation, respectively.

Kettle Falls' primary fuel is wood-waste generated as a by-product from forest industry operations within one hundred miles of the plant. Natural gas may be used as an alternate fuel. A combination of long-term contracts plus spot purchases provides the Company the flexibility to meet expected future fuel requirements for the plant. In 1999, 1998 and 1997, Kettle Falls provided approximately 8%, 9% and 11% of Avista Utilities' thermal generation, respectively.

The four CTs are natural gas-fired units, primarily used for peaking needs. Two CTs have access to domestic and Canadian natural gas supplied through Pacific Gas Transmission (PGT). In 1999, 1998 and 1997, these four units provided approximately 7%, 8% and 4%, respectively, of Avista Utilities' thermal generation.

Purchases, Exchanges and Sales In 1999, Avista Utilities had various long-term purchase contracts with non-coincidental peak (peak that does not occur during the same hour) equating to 682 MW, with an average remaining life of 3.6 years. Additionally, long-term hydroelectric purchase contracts of 197 MW peak were available with an average remaining contract life of 11.8 years. Avista Utilities also enters into a significant number of short-term sales and purchases with durations of up to one year. Energy purchases and exchanges for the years 1999, 1998 and 1997 provided approximately

65%, 66% and 65%, respectively, of Avista Utilities' total electric energy requirements, which reflects increased wholesale marketing and resource optimization trading activity.

Under the Public Utility Regulatory Policies Act of 1978 (PURPA), Avista Utilities is required to purchase generation from qualifying facilities, including small hydroelectric and cogeneration projects, at avoided cost rates adopted by the WUTC and the IPUC. Avista Utilities purchased approximately 597,618 MWH, or about 2% of its total energy requirements, from these sources at a cost of approximately $27 million in 1999. These contracts expire in 2000-2022.

HYDROELECTRIC RELICENSING

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

The Cabinet Gorge and Noxon Rapids plants received a new 45-year operating license from the FERC on February 23, 2000. The existing licenses were combined into one license under the name Clark Fork Projects. The application to relicense Cabinet Gorge and Noxon Rapids was filed with the FERC on February 18, 1999, and included the Clark Fork Settlement Agreement signed by 27 parties and a collaboratively written environmental assessment report. The application culminated seven years of planning and consultation with Native American Tribes, special interest groups, resource agencies and the general public. For hydroelectric projects of this size, it is unprecedented to have reached settlement two years before the license expired, while preserving the projects' economic peaking and load following operations. The collaborative process used by Avista Utilities is nationally recognized as the model for the FERC's alternative approach to relicensing.

As part of the Settlement Agreement, Avista Utilities committed to early implementation of protection, mitigation and enhancement measures beginning in March 1999. Measures in the agreement, which will cost approximately $4.7 million annually, address issues related to fisheries, water quality, wildlife, recreation, land use, cultural resources and erosion. See Item 2. Properties - Avista Utilities and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Future Outlook for additional information.

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

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

NATURAL GAS OPERATIONS

Natural gas remains competitively priced compared to alternative fuel sources for residential, commercial and industrial customers. Because of abundant supplies and competitive markets, natural gas should sustain its market advantage. Avista Utilities continues to advise residential and commercial electric customers about the cost advantages of converting space and water heating needs to natural gas. Significant growth has occurred in the natural gas business in recent years due to increased demand for natural gas in new construction. Avista Utilities also makes sales and provides transportation service directly to large natural gas customers.

Most of Avista Utilities' large industrial customers purchase their own natural gas requirements through gas marketers. For these customers, Avista Utilities provides transportation from its pipeline interconnection to the customer's premises. Avista Utilities has numerous special contracts for natural gas transportation service, most of which contain negotiated rates for its distribution service based on the customer's competitive alternatives. Seven of Avista Utilities' largest natural gas customers are provided natural gas transportation service by Avista Utilities under special contracts. These negotiated contracts were entered into to retain these customers who can either by-pass Avista Utilities' distribution system or have

competitive alternative fuel capability. All special contracts are subject to regulatory review and approval. The competitive nature of the spot natural gas market results in savings in the cost of purchased natural gas, which encourages large customers with fuel-switching capabilities to continue to utilize natural gas for their energy needs. The total volume transported on behalf of transportation customers for 1999, 1998 and 1997 was approximately 232.7, 226.1 and 245.1 million therms, which represented approximately 40%, 41% and 43% of Avista Utilities' total system deliveries.

NATURAL GAS RESOURCES

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

The Company's energy trading and marketing subsidiary, Avista Energy, is responsible for the daily management and optimization of these resources for the requirements of customers in the states of Washington, Idaho and Oregon under an agreement with Avista Utilities. Under this relationship, Avista Utilities retains ownership of its transportation, storage and long-term contracts and Avista Energy acts as an agent to optimize these important resources. The utility commissions of these states have approved Benchmark Incentive Mechanisms that allow Avista Utilities and its customers to share some of the benefits of Avista Energy's resource optimization activities. See Regulatory Issues for additional information.

Firm natural gas supplies are purchased by Avista Utilities through negotiated agreements having terms ranging between one month and seven years. During 1999, approximately one-third of Avista Utilities' purchases were in the short-term market, with contracts on a month-to-month basis. Approximately 14% of the natural gas supply was obtained from domestic sources, with the remaining 86% from Canadian sources. Nearly all natural gas purchased from Canadian sources is contracted in U.S. dollar denominations, limiting any foreign currency exchange exposure. Avista Utilities does not consider Canadian natural gas supplies to be at greater risk of non-delivery than U.S. supplies.

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

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

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

REGULATORY ISSUES

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

In each regulatory jurisdiction, the price Avista Utilities may charge for retail electric and natural gas services (other than specially negotiated retail rates for industrial or large commercial customers, which are subject to regulatory review and approval) is currently determined on a "cost of service" basis and is designed to provide, after recovery of allowable operating expenses, an opportunity to earn a reasonable return on "rate base." "Rate base" is generally determined by reference to the original cost (net of accumulated depreciation) of utility plant in service, subject to various adjustments for

deferred taxes and other items. Over time, rate base is increased by additions to utility plant in service and reduced by depreciation of utility plant. As the energy business is restructured, traditional "cost of service" ratemaking may evolve into some other form of ratemaking. Rates for transmission services are based on the "cost of service" principles and are set forth in tariffs on file with the FERC. See Note 1 of Notes to Financial Statements for additional information about regulation, depreciation and deferred taxes. Also see Industry Restructuring and Legislative Issues for additional information about deregulation.

General Rate Cases In the Company's last general electric rate case in the State of Idaho, the IPUC granted a rate increase of $9.3 million, or 7.6%, with an authorized 10.75% return on common equity, effective August, 1999.

On October 22, 1999, the Company filed for a general electric rate increase of $26.3 million, or 10.40%, with the WUTC. The Company is requesting a return on common equity of 12.25%, based on a target capital structure for the utility of 47% debt, 6% preferred securities and 47% common equity. The Company is also requesting a Power Cost Adjustment (PCA) similar to the one in effect in Idaho. (See below for information about the Idaho PCA.) An order is expected in the latter part of 2000. The Company's last general electric rate case in the State of Washington was effective in March 1987, with an allowed return on common equity of 12.90%.

On October 22, 1999, the Company filed for a general natural gas rate increase of $4.9 million, or 6.5%, with the WUTC. The Company is requesting a return on common equity of 12.25%, based on a target capital structure for the utility of 47% debt, 6% preferred securities and 47% common equity. An order is expected in the latter part of 2000. On June 27, 1997, the Company filed for a general natural gas rate increase of $7.9 million with the WUTC. The Company's last general natural gas rate cases involving litigated cost of capital resulted in an allowed return on common equity of 12.90% for the State of Washington, effective August 1990, and 12.75% for the State of Idaho, effective October 1989.

In December 1998, the OPUC approved a stipulation that settled the main issues associated with a Staff investigation into Purchased Gas Adjustment (PGA) related earnings issues. The Settlement requires a general earnings review in the spring of each year. The adjusted earnings will be calculated on the prior calendar year test year, with minor regulatory adjustments, but will not be adjusted for weather. An earnings threshold will be determined annually by adding 710 basis points (7.10%) to the average of the test year annual yields reported monthly on 5-, 7- and 10-year U.S. Treasuries. For 1999, the threshold rate was 12.70%. If adjusted earnings are above the threshold, the Company will retain two-thirds of the earnings exceeding the threshold, and revenues representing the remaining one-third will be shared with customers through a temporary rate adjustment.

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

Purchased Gas Adjustment (PGA or Natural Gas Trackers) Natural gas trackers are supplemental tariffs filed with state regulatory commissions which are designed to pass through changes in purchased natural gas costs, and do not normally result in any changes in net income to the Company. In November 1999, the Company filed a natural gas tracker with the WUTC requesting a $12.1 million, or 16.2%, increase, which was approved, effective January 1, 2000. In November 1999, the OPUC approved a $4.7 million, or 9.5%, increase effective December 1, 1999. In September 1999, the Company filed a natural gas tracker with the IPUC requesting a $2.7 million, or 8.6%, increase, which was approved, effective November 1, 1999.

Natural Gas Benchmark Mechanism The Company received regulatory approval of its Natural Gas Benchmark Mechanism on February 1, 1999, June 23, 1999 and August 10, 1999 by the IPUC, WUTC and OPUC, respectively. The mechanism eliminates natural gas procurement operations within Avista Utilities and consolidates gas procurement operations under Avista Energy, the Company's non-regulated affiliate. The ownership of the natural gas assets remains with Avista Utilities, but the assets are managed by Avista Energy through an Agency Agreement. A reduced natural gas staff remains in Avista Utilities to prepare load forecasts and analyses related to long-term resource acquisitions, to manage the Agency Agreement with Avista Energy and to support state and federal regulatory activities. The Natural Gas Benchmark Mechanism was implemented September 1, 1999 and runs through March 31, 2002.

Consolidation of natural gas procurement operations under Avista Energy allows the Company to gain synergies and better manage its risk by combining and operating the two portfolios as one portfolio and gain efficiencies by eliminating duplicate functions. The Natural Gas Benchmark Mechanism provides certain guaranteed benefits to retail customers as well as provides the Company with the opportunity to improve earnings, i.e., a performance-based mechanism.

AVISTA UTILITIES OPERATING STATISTICS

	Years Ended December 31,		
	1999	1998	1997
ELECTRIC OPERATIONS			
ELECTRIC OPERATING REVENUES (Thousands of Dollars):			
Residential	$ 158,658	$ 157,019	$ 160,411
Commercial	152,107	149,767	144,952
Industrial	69,559	64,662	58,391
Public street and highway lighting	3,517	3,387	3,352
Total retail revenues	383,841	374,835	367,106
Long-term wholesale	134,945	102,928	138,730
Short-term wholesale	387,554	354,413	191,202
Total wholesale revenues	522,499	457,341	329,932
Total energy revenues	906,340	832,176	697,038
Other	21,824	23,898	28,845
Total electric operating revenues	$ 928,164	$ 856,074	$ 725,883
ELECTRIC ENERGY SALES (Thousands of MWhs):			
Residential	3,237	3,217	3,270
Commercial	2,848	2,810	2,716
Industrial	2,032	1,878	1,759
Public street and highway lighting	25	24	24
Total retail energy sales	8,142	7,929	7,769
Long-term wholesale	5,335	3,680	4,307
Short-term wholesale	14,443	15,535	12,103
Total wholesale energy sales	19,778	19,215	16,410
Total electric energy sales	27,920	27,144	24,179
ELECTRIC ENERGY RESOURCES (Thousands of MWhs):			
Hydro generation (from Company facilities)	4,287	3,860	4,863
Thermal generation (from Company facilities)	3,353	3,522	2,627
Purchased power - long-term hydro	1,093	910	1,212
Purchased power - other	19,697	19,405	16,038
Power exchanges	16	26	178
Total power resources	28,446	27,723	24,918
Energy losses and Company use	(526)	(579)	(739)
Total energy resources (net of losses)	27,920	27,144	24,179
NUMBER OF ELECTRIC CUSTOMERS (Average for Period):			
Residential	270,013	265,891	261,873
Commercial	34,877	34,407	33,681
Industrial	1,189	1,169	1,145
Public street and highway lighting	389	383	371
Total electric retail customers	306,468	301,850	297,070
Wholesale	68	85	91
Total electric customers	306,536	301,935	297,161
ELECTRIC RESIDENTIAL SERVICE AVERAGES:			
Annual use per customer (KWh)	11,990	12,099	12,489
Revenue per KWh (in cents)	4.90	4.88	4.90
Annual revenue per customer	$ 587.59	$ 590.54	$ 612.55
ELECTRIC AVERAGE HOURLY LOAD (aMW)	990	971	954
RESOURCE AVAILABILITY at time of system peak (MW):			
Total requirements (winter) (1)	4,632	4,765	4,226
Total resource availability (winter)	4,831	4,991	4,684
Total requirements (summer) (2)	6,008	5,093	4,345
Total resource availability (summer)	6,633	5,340	4,766

(1) Includes long-term contract obligations of 941 MW, 663 MW and 1,022 MW and 2,340 MW, 2,401 MW and 1,688 MW of short-term sales in 1999, 1998 and 1997, respectively.

(2) Includes long-term contract obligations of 1,155 MW, 780 MW and 1,011 MW and short-term sales of 3,435 MW, 2,792 MW and 1,966 MW in 1999, 1998 and 1997, respectively.

AVISTA UTILITIES OPERATING STATISTICS

	Years Ended December 31,		
	1999	1998	1997
NATURAL GAS OPERATIONS			
NATURAL GAS OPERATING REVENUES (Thousands of Dollars):			
Residential	$ 99,879	$ 92,614	$ 81,855
Commercial	51,952	49,539	42,731
Industrial - firm	3,695	3,685	3,563
Industrial - interruptible	1,352	1,639	512
Total retail natural gas revenues	156,878	147,477	128,661
Non-retail sales	15,189	24,846	19,559
Transportation	10,784	12,100	12,678
Other revenues	4,633	8,715	4,884
Total natural gas operating revenues	$ 187,484	$ 193,138	$ 165,782
THERMS DELIVERED (Thousands of Therms):			
Residential	200,184	187,571	182,037
Commercial	125,611	122,263	118,494
Industrial - firm	11,241	11,494	12,509
Industrial - interruptible	5,209	6,053	3,217
Total retail sales	342,245	327,381	316,257
Non-retail sales	74,117	126,522	105,297
Transportation	232,739	226,139	245,139
Interdepartmental sales and Company use	9,801	32,647	2,087
Total therms delivered	658,902	712,689	668,780
SOURCES OF NATURAL GAS SUPPLY (Thousands of Therms):			
Purchases	430,698	499,983	431,646
Storage - injections	(30,508)	(32,023)	(31,288)
Storage - withdrawals	23,972	23,140	22,183
Natural gas for transportation	232,739	226,139	245,139
Distribution system gains (losses)	2,001	(4,550)	1,100
Total supply	658,902	712,689	668,780
NUMBER OF NATURAL GAS CUSTOMERS (Average for Period):			
Residential	234,844	226,165	214,927
Commercial	29,032	28,236	27,171
Industrial - firm	308	310	306
Industrial - interruptible	30	26	25
Total retail customers	264,214	254,737	242,429
Non-retail sales	9	19	17
Transportation	107	119	111
Total natural gas customers	264,330	254,875	242,557
NATURAL GAS RESIDENTIAL SERVICE AVERAGES:			
Washington and Idaho			
Annual use per customer (therms)	887	861	927
Revenue per therm (in cents)	45.74	44.97	40.44
Annual revenue per customer	$ 405.51	$ 387.17	$ 374.90
Oregon and California			
Annual use per customer (therms)	789	772	703
Revenue per therm (in cents)	58.59	58.32	55.71
Annual revenue per customer	$ 462.21	$ 450.13	$ 391.56
NET SYSTEM MAXIMUM CAPABILITY (Thousands of Therms):			
Net system maximum demand (winter)	2,077	3,284	3,134
Net system maximum firm contractual capacity (winter)	4,320	4,220	4,220
HEATING DEGREE DAYS: (1)			
Spokane, WA			
Actual	6,408	5,951	6,510
30 year average	6,842	6,842	6,842
% of average	94%	87%	95%
Medford, OR			
Actual	4,401	4,421	4,144
30 year average	4,611	4,611	4,611
% of average	95%	96%	90%

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

ENERGY TRADING AND MARKETING

The Energy Trading and Marketing line of business includes Avista Energy, Avista Power and Avista-STEAG. Avista Energy and Avista Power are wholly owned subsidiaries of Avista Capital. Avista-STEAG is 50% owned by Avista Capital. Avista Capital's total equity investment in this line of business was approximately $86.0 million on December 31, 1999.

AVISTA ENERGY

Avista Energy is an electricity and natural gas marketing and trading business focused on marketing energy in the Western United States. In 1999, Avista Energy began conducting business on a national basis with its acquisition of Vitol Gas & Electric, LLC (Vitol). However, in November 1999, the decision was made to reduce Avista Energy's risk by redirecting its focus away from national energy trading and marketing toward a more regionally-based energy marketing and trading effort in the West backed by contracts for energy commodities and by the output of specific facilities available under contract. The decision came as a result of Avista Energy's inability to effectively and consistently compete on a national basis with the larger trading and marketing companies.

Avista Energy's headquarters are currently in Boston, Massachusetts with offices in Houston, Texas; Spokane, Washington; Portland, Oregon; and Vancouver, British Columbia, Canada. As a result of the restructuring, Avista Energy is closing the Boston and Houston offices and relocating headquarters back to Spokane in the first half of 2000.

Avista Energy is in the business of buying and selling electricity and natural gas. Avista Energy's customers include commercial and industrial end-users, electric utilities, natural gas distribution companies and other trading companies. Avista Energy also trades electricity and natural gas derivative commodity instruments, including futures, options, swaps and other contractual arrangements on national exchanges and through unregulated exchanges and brokers from whom these commodity derivatives are available. During 1999, Avista Energy also sold and traded coal and sulfur dioxide (SO_2) allowances, but it is Avista Energy's intent to eliminate these activities in 2000. However, that is dependent upon finding a buyer for the coal contracts already entered into. In 1999, Avista Energy sold approximately 135.1 million MWhs of electric energy, 775.8 million dekatherms of natural gas and 1.6 million tons of coal, compared to approximately 54.4 million MWhs of electric energy and 424.2 million dekatherms of natural gas in 1998. No coal was sold in 1998. These volumes, and the associated revenues, will all decline in the future as a result of the restructuring.

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

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

In April 1997, Avista Energy entered into a marketing agreement with Chelan County Public Utility District (Chelan PUD), located in Washington State. The agreement allows Avista Energy to market, on a "real-time" basis, a portion of the output from Chelan PUD's hydroelectric resources and to jointly market energy products and services to other utilities in the region. Twenty-eight percent, or 557 megawatts, of total generated capacity from Chelan PUD's hydroelectric resources are available for real-time scheduling and resource optimization. Avista Energy and Chelan PUD offer a variety of products, all designed to help smaller utilities adjust to the emerging energy market. On October 20, 1997, a complaint for declaratory and injunctive relief was filed in Chelan County Superior Court by James A. Brown, a taxpayer and ratepayer of the Chelan PUD, in order to determine whether the joint marketing and real-time scheduling efforts of Chelan PUD and Avista Energy are within Chelan PUD's lawful authority to undertake. This lawsuit was dismissed on July 30, 1999, and Avista Energy and Chelan PUD continue to operate under the contractual alliance.

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

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

Avista Energy is subject to the various risks inherent in commodity trading including, particularly, market risk and credit risk. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Energy Trading and Marketing Operations; Future Outlook - Energy Trading Business; and Notes 1, 2, 4 and 5 of Notes to Financial Statements for additional information regarding the market and credit risks inherent in the energy trading business, fourth quarter restructuring costs, Avista Corp.'s risk management policies and procedures, accounting practices, and positions held by Avista Energy at December 31, 1999.

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

AVISTA POWER

Avista Power was formed to develop and own electricity generation and/or natural gas fuel storage assets in strategic locations primarily throughout the West. Avista Power's goal is to create value-added partnerships and joint ventures to solidify market position, primarily in support of Avista Energy's operations. Avista Power and Cogentrix Energy, Inc. have entered into an agreement to jointly build and/or buy interests in natural gas-fired electric generation plants in the states of Washington, Oregon and Idaho. The first project under the new agreement is a 270 megawatt facility located in Rathdrum, Idaho, with 100% of its output contracted to Avista Energy for 25 years. The facility is currently under construction and is expected to start up in late 2001. The total cost of the project is estimated at $160 million; Avista Power's share of the costs is approximately $80 million.

If Avista Power creates projects that STEAG AG, a German independent power producer, wants to partner with, such projects will be done under Avista-STEAG, LLC.

AVISTA CORPORATION

ENERGY TRADING AND MARKETING OPERATING STATISTICS

	Years Ended December 31,		
	1999	1998	1997
AVISTA ENERGY			
REVENUES (Thousands of Dollars):			
Electric	$4,745,615	$1,665,348	$111,344
Natural gas	1,900,487	743,386	135,684
Coal	49,569	--	--
Total revenues	$6,695,671	$2,408,734	$247,028
VOLUMES:			
Electricity (Thousands of MWhs)	135,099	54,430	4,540
Natural gas (Thousands of dekatherms)	775,822	424,152	67,319
Coal (Tons)	1,637,851	--	--

INFORMATION AND TECHNOLOGY

The Information and Technology line of business includes Avista Advantage, Avista Labs and Avista Communications. Avista Fiber and Avista Communications will merge operations in 2000, so Avista Fiber's information has been incorporated into Avista Communications. Avista Advantage and Avista Labs are wholly owned subsidiaries of Avista Capital. As of December 31, 1999, Avista Capital owned approximately 71% of Avista Communications.

AVISTA ADVANTAGE

Headquartered in Spokane, Avista Advantage is a leading e-commerce provider of specialty billing and information services to commercial customers throughout the U.S. and Canada. Avista Advantage has established itself as a leader in the development and implementation of customer-focused, non-traditional energy solutions.

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

As of the end of 1999, Avista Advantage's customer base was over 100 customers, having over 40,000 committed sites throughout the U.S. and Canada. Its customers include Starbucks, Disney Stores, Kinko's, Home Depot, CVS Drug Stores and Time Warner.

Avista Advantage's current products and services offering includes:

Consolidated billing - Invoices are entered into the AviTrack(TM) database, which performs a variety of tolerance tests on the data. Edits are resolved prior to the bill being presented to the customer for payment. The ACIS(TM) Internet portal presents consolidated bills to be viewed and approved on-line. Customers transfer the funds necessary to pay invoices (in aggregate) directly to Avista Advantage, which remits to all vendors.

Resource accounting - Over 500 different reports are available based on customer-specific information requirements delivered on-line via the ACIS(TM) portal.

Utility usage analysis - Avista Advantage compares usage information to similar sites across the country and helps customers design strategies to address identified issues.

Load profiling - Energy profiles are developed for individual sites, which is useful in forecasting future energy costs and pinpointing patterns of irregular energy consumption for further analysis.

Maintenance and repair billing services - Scheduled maintenance, standard and emergency repairs of infrastructure and equipment are tracked, monitored and bills are paid. This area of service is currently under development.

Invoice audits - Audits of invoices are performed to customer specifications.

Task report card - A monthly task report card is prepared summarizing specific billing issues that were identified and resolved, listing the actual savings resulting from the analysis, and documenting additional opportunities for savings that have been identified for further analysis.

The ongoing management of customer utility and maintenance and repair bills provides Avista Advantage with a database of information about customers and their facilities services history. This database will be the foundation for offering additional products and services tailored to the needs of individual customers. Future products and services could include:

Commodity consulting services - Using load and usage information from the AviTrack(TM) database to help customers purchase energy on the commodity market. The potential for this service will increase significantly as additional states allow retail customers to choose their energy suppliers.

Procurement services - Purchasing services and equipment on behalf of customers to address operational improvements identified through the standard Avista Advantage product offering. This may be expanded to include all products and services required by a facilities management organization.

Telecommunications (voice, data and video) bill processing - Expanding the current utility bill offering to include telecommunications invoices.

Web advertising and referral fees - Utilizing the ACIS(TM) web site as a portal through which providers and users of e-commerce products and services can conduct business.

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

AVISTA LABS

Avista Labs is in the process of developing Proton Exchange Membrane (PEM) fuel cells for power generation at the site of the consumer. The prototype fuel cell has a unique modular cartridge design that allows for easy operation, low cost and simple production. Avista Labs intends to integrate a fuel processor using natural gas and propane fuels with an existing low-cost, flexible, modular, stationary fuel cell, establish multiple beta-testing sites within strategic market segments and attract additional partners for development and growth.

Avista Labs has filed applications for five patents, and is in the process of drafting two more applications. The first, and most significant, patent was approved, and issued on February 29, 2000. This patent protects the main attributes of the fuel cell. A second patent, involving the operation of the fuel cell, has been approved, but has not yet been issued. Approval is expected on all of the other patent applications by year-end.

Avista Labs selected Logan Industries, of Spokane, to manufacture, assemble and prepare the first 200 fuel cell units for field testing. Avista Labs and UOP, LLC, a Chicago-based company, signed a joint development agreement that will integrate UOP's fuel processor into Avista Lab's fuel cell design. This represents one of the most critical steps in successful commercialization of stationary fuel cells, possibly in early 2001. Avista Labs also signed a joint marketing/installation agreement with Black & Veatch, a global engineering and construction company.

In October 1998, Avista Labs was awarded a two year $2.0 million technology development contract from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program to accelerate fuel cell development for commercial application.

AVISTA COMMUNICATIONS

Avista Communications, formed in January 1999 upon the acquisition of One Eighty Communications, is the newest company in the Information and Technology line of business. At December 31, 1999, Avista Capital owned 71% of this company. Avista Communications is a Competitive Local Exchange Carrier (CLEC), providing local, facilities-based telecommunications solutions. During 2000, Avista Communications and Avista Fiber, a subsidiary started in 1996, will merge operations. Avista Communications will then be additionally responsible for designing, building and managing metropolitan area fiber optic networks, services formerly provided by Avista Fiber.

The focus of Avista Communications is on providing local dial tone, data transport, internet services, voice messaging and enhanced telecommunications solutions to business customers via an advanced fiber optic network and state-of-the-art switching technology. Target markets include under-served communities in the western U.S. with populations under 500,000. Avista Communications is already providing services in Billings, Montana and Lewiston, Idaho and expects to be providing services in at least three more Northwest communities in 2000.

PENTZER AND OTHER

Pentzer, a wholly owned subsidiary of Avista Capital, is the largest entity in the Pentzer and Other line of business. The other subsidiaries in this line of business are Avista Development and Avista Services. At December 31, 1999, Avista Capital's total equity investment in this line of business was approximately $140.3 million, of which $122.2 million related to Pentzer.

PENTZER

Pentzer, a private investment fund specializing in profitable middle market businesses, was the parent company for a majority of Avista Corp.'s other subsidiary businesses until 1999, when it sold two groups of its portfolio companies. In the past, Pentzer's business strategy has been to acquire controlling interests in a broad range of middle market companies, facilitate improved productivity and growth, and ultimately sell such companies to the public or a strategic buyer. Total equity investment in any one company was generally limited to $15 million.

Beginning in 2000, Pentzer's business strategy is to invest in companies that are positioned to be leaders in emerging technology and information businesses that are linked to the energy business. The investments will be directly in businesses that meet these criteria, and indirectly, through the strategic investment in certain venture capital firms that invest in similar business segments and where Pentzer has the opportunity to directly invest in specific portfolio companies.

Pentzer's goal is to produce strategic growth opportunities and financial returns for the Company's shareholders that, over the long-term, should be higher than that of the utility operations. From time to time, a significant portion of Pentzer's earnings contributions may be the result of transactional gains. Transactional gains arise from a one-time event or a specific transaction, such as the sale of an investment or company from Pentzer's portfolio of investments. In 1999, Pentzer generated $35.9 million in after-tax transactional gains due to sales of portfolio companies.

AVISTA DEVELOPMENT

Avista Development manages and markets the corporation's community investments, including real-estate, tax credit housing and other assets.

AVISTA SERVICES

Avista Services, the newest subsidiary under Avista Capital, provides products and services to existing utility customers, which includes energy consulting, mail order merchandising and the sale of items such as Dish Network Systems, surge protectors and generators through a third party.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations: Results of Operations: Pentzer and Other and Notes 1 and 23 of Notes to Financial Statements for additional information.

INDUSTRY RESTRUCTURING

FEDERAL LEVEL

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

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

On December 20, 1999, the FERC issued a final rule in Order No. 2000 regarding the development of Regional Transmission Organizations (RTO). This final rule requires public utilities subject to FERC regulation to file an RTO proposal, or a description of efforts to participate in an RTO, and any existing obstacles to RTO participation, by October 2000. Avista Utilities and various Northwest utilities initially investigated the feasibility of transferring certain operational responsibilities associated with a regional transmission grid to an independent grid operator in 1997. Avista Utilities withdrew from this effort in December 1997 because the costs to establish an independent grid operator in the Northwest were greater than the perceived benefits. Notwithstanding the FERC's developing policies, Avista Utilities has continued to explore other regional transmission alternatives intended to help facilitate a competitive electric power market, including the development of an RTO that might provide quantifiable efficiencies in administering access to the Northwest transmission system in a non-discriminatory fashion. In response to the FERC's Order 2000, Avista Utilities will be submitting its response on RTO development and participation to the FERC by October 2000.

The North American Electric Reliability Council and the WSCC have undertaken initiatives to establish a series of security coordinators to oversee the reliable operation of the regional transmission system. Accordingly, Avista Utilities, in cooperation with other utilities in the Pacific Northwest, has established the Pacific Northwest Security Coordinator (PNSC), which oversees daily and short-term operations of the Northwest sub-regional transmission grid, and has limited authority to direct certain actions of control area operators in the case of a pending transmission system emergency. Avista Utilities executed its service agreement with the PNSC in September 1998.

STATE LEVEL

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

From 1995 through 1999, the legislatures and public utility commissions in Washington and Idaho have covered a series of hearings and conducted several studies regarding electric industry restructuring. Issues such as unbundling, deregulation, reliability and consumer protection have been examined. Impacts on customer service quality and system reliability (generation, transmission and distribution) have been considered on a "macro" basis under various restructuring scenarios. Public policy makers in Washington and Idaho continue to examine other states' experiences with restructuring, while cognizant that the Pacific Northwest generally benefits from the lowest electric rates in the country.

In 1997, Governor Locke issued an executive order requiring all agencies in the State of Washington to review their significant rules under the criterion of need, efficiency, clarity and cost. The WUTC is in the process of examining its electric and natural gas rules. Resulting modifications to existing rules may include changes to customer service and reliability standards. Avista Utilities believes that any such modifications to the WUTC's existing rules will not materially impact operations.

Avista Utilities has developed a model to offer broader customer choice. The Portfolio Access Model (PA Model) was developed as a transition to full direct access. Under the PA Model, large-use customers would receive direct access, while small-use customers would be provided a menu of services priced at market rates, such as monthly and annual pricing, as well as optional "green rates" for renewable power. The PA Model has served as a regional proposal under discussion by legislative committees and work groups in Washington, Idaho and Oregon. In 1999, the Oregon Legislature voted into law an electric restructuring system similar to Avista Utilities' PA Model. More Options for Power Services II (MOPS II) is Avista Utilities' PA Model regulatory pilot.

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

EXPERIMENTAL PROGRAMS

To assess the potential impact of competition and customer choice, commencing in 1997, Avista Utilities has implemented a variety of experimental programs that permitted its retail customers to choose other energy suppliers. The cost of these programs to Avista Utilities, in terms of lost margin, has not been material.

On the basis of its experience under these programs, Avista Utilities believes that if the States of Washington and/or Idaho adopted legislation providing for customer choice, the effect on its results of operations would not be material. This is due largely to (1) Avista Utilities' current retail rates, which are among the lowest in the U.S., and (2) Avista Utilities' ability to sell capacity and energy in wholesale markets without any significant loss of margin.

ENVIRONMENTAL ISSUES

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

Air Quality. The most significant impact of the Clean Air Act (CAA) and the 1990 Clean Air Act Amendments (CAAA) is on the Centralia Steam Electric Plant, which is classified as a "Phase II" coal plant under the CAAA. Construction is underway to install limestone scrubbers on both units. The first unit will go into operation in 2001 and the second in 2002. The scrubbers are expected to result in a 90% reduction in sulfur dioxide (SO_2) emissions. This level of reduction exceeds the requirements of the CAA and meets the RACT (Reasonably Available Control Technology) order by the Southwest Washington Pollution Control Authority (SWAPCA). The plant will also install low nitrogen oxide (NOX) burners to reduce the emission of NOX. The standards in the RACT order were established by a collaborative decision-making group consisting of representatives from federal and state agencies and the plant owners. Avista Utilities and the other owners decided to take bids for the sale of the Centralia Steam Electric Plant and have announced TransAlta of Calgary as the selected bidder in the auction process. The sale must be approved by federal and state regulators, as well as the city councils and directors who control the municipal utilities and public utility districts that also have ownership interests in the plant. Regulatory approvals have been received from the FERC and state commissions in Washington, Idaho, Oregon and Wyoming. Commissions in Utah and California have yet to make their decisions. The Company is reviewing the terms of the approvals from the WUTC and the IPUC to determine whether to agree to the sale. Obligations under the CAA would be assumed by TransAlta if the sale of the Centralia Steam Electric Plant is completed.

Colstrip, which is also a "Phase II" coal-fired plant under the CAAA, is not expected to be required to implement any additional SO_2 mitigation in the foreseeable future in order to continue operations.

Avista Utilities' other thermal projects also are subject to various CAAA standards. Every five years each project requires an updated operating permit (known as a Title V permit) which addresses, among other things, the compliance of the plant with the CAAA. No permits are required at any of Avista Utilities' thermal plants in 2000.

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

ITEM 2. PROPERTIES

AVISTA UTILITIES

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

Generating Plant

	No. of Units	Nameplate Rating (MW)(1)	Present Capability (MW)(2)	Year of FERC License Expiration
Hydroelectric Generating Stations (River)				
Washington:				
Long Lake (Spokane)	4	70.0	88.0	2007
Little Falls (Spokane)	4	32.0	36.0	n/a
Nine Mile (Spokane)	4	26.4	24.5	2007
Upper Falls (Spokane)	1	10.0	10.2	2007
Monroe Street (Spokane)	1	14.8	14.8	2007
Idaho:				
Cabinet Gorge (Clark Fork)	4	221.9	236.0	2045(3)
Post Falls (Spokane)	6	14.8	18.0	2007
Montana:				
Noxon Rapids (Clark Fork)	5	466.7	528.0	2045(3)
Total Hydroelectric		856.6	955.5	
Thermal Generating Stations				
Washington:				
Centralia(4)	2	199.5	201.0	
Kettle Falls	1	50.7	49.0	
Northeast (Spokane) CT(5)	2	61.2	69.0	
Idaho:				
Rathdrum CT(5)	2	166.5	176.0	
Montana:				
Colstrip (Units 3 and 4)(4)	2	233.4	222.0	
Total Thermal		711.3	717.0	
Total Generation Properties		1,567.9	1,672.5	

n/a not applicable.

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

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

(3) On February 23, 2000, the Company received a new operating license for Cabinet Gorge and Noxon Rapids. (See Item 1. Business: Avista Utilities - Hydroelectric Relicensing for additional information.)

(4) Jointly owned; data above refers to Avista Utilities' respective 15% interests. The remaining 2.5% interest in Centralia, purchased by the Company in December 1999, is currently being held as non-utility property until the outcome of the pending sale is determined.

(5) Used primarily for peaking needs.

Electric Distribution and Transmission Plant

Avista Utilities operates approximately 12,200 miles of primary and secondary distribution lines in its electric system in addition to a transmission system of approximately 575 miles of 230 kV line and 1,520 miles of 115 kV line. Avista Utilities also owns a 10% interest in 495 miles of a 500 kV line between Colstrip, Montana and Townsend, Montana, and a 15% interest in three miles of a 500 kV line from Centralia, Washington to the nearest Bonneville Power Administration (Bonneville) interconnection.

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

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

Natural Gas Plant

Avista Utilities has natural gas distribution mains of approximately 3,877 miles in Washington and Idaho and 1,794 miles in Oregon and California, as of December 31, 1999.

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

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

PART II

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

Outstanding shares of Common Stock are listed on the New York and Pacific Stock Exchanges. As of February 29, 2000, there were approximately 20,726 registered shareholders of the Company's no par value Common Stock.

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

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

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended December 31,				
	1999	1998	1997	1996	1995
	(Thousands of Dollars except Per Share Data and Ratios)				
Operating Revenues:					
Avista Utilities *	$ 1,082,159	$ 1,041,772	$ 890,516	$ 798,994	$ 661,216
Energy Trading and Marketing	6,695,671	2,408,734	247,028	--	--
Information and Technology	4,851	1,995	1,030	813	--
Pentzer and Other	122,303	231,483	163,598	145,150	93,793
Total	7,904,984	3,683,984	1,302,172	944,957	755,009
Operating Income/(Loss):					
Avista Utilities *	142,567	143,153	178,289	173,658	176,344
Energy Trading and Marketing	(97,785)	22,826	6,577	(649)	--
Information and Technology	(13,002)	(5,192)	(5,364)	(1,443)	--
Pentzer and Other	(423)	12,033	9,962	15,355	13,496
Total	31,357	172,820	189,464	186,921	189,840
Net Income/(Loss):					
Avista Utilities *	59,470	56,297	100,777(4)	62,404	72,310
Energy Trading and Marketing	(60,740)	14,116	5,346	(414)	--
Information and Technology	(10,156)	(3,398)	(3,425)	(919)	--
Pentzer and Other	37,457	11,124	12,099	22,382	14,811
Total	26,031	78,139	114,797	83,453	87,121
Preferred Stock Dividend Requirements	21,392(1)	8,399(1)	5,392	7,978	9,123
Income Available for Common Stock	4,639	69,740	109,405(4)	75,475	77,998
Outstanding Common Stock (000s):					
Weighted Average	38,213(1)	54,604(1)	55,960	55,960	55,173
Year-End	35,648(1)	40,454(1)	55,960	55,960	55,948
Book Value per Share	$ 11.04(1)	$ 12.07(1)	$ 13.36	$ 12.70	$ 12.82
Earnings per Share:					
Avista Utilities	1.00	0.88	1.70(4)	0.97	1.14
Energy Trading and Marketing	(1.59)	0.26	0.10	(0.01)	--
Information and Technology	(0.27)	(0.06)	(0.06)	(0.01)	--
Pentzer and Other	0.98	0.20	0.22	0.40	0.27
Total, Basic and Diluted	0.12	1.28	1.96(4)	1.35	1.41
Adjusted Diluted	0.44(2)	1.35(2)	--	--	--
Dividends Paid per Common Share	0.48(3)	1.05(3)	1.24	1.24	1.24
Total Assets at Year-End:					
Avista Utilities	1,976,716	2,004,935	1,926,739	1,921,429	1,869,180
Energy Trading and Marketing	1,595,470	955,615	212,868	320	--
Information and Technology	26,379	7,461	3,475	1,517	--
Pentzer and Other	114,929	285,625	268,703	254,032	229,722
Total	3,713,494	3,253,636	2,411,785	2,177,298	2,098,902
Long-term Debt at Year-End	718,203	730,022	762,185	764,526	738,287
Company-Obligated Mandatorily Redeemable Preferred Trust Securities	110,000	110,000	110,000	--	--
Preferred Stock Subject to Mandatory Redemption at Year-End	35,000	35,000	45,000	65,000	85,000
Convertible Preferred Stock	263,309	269,227(1)	--	--	--
Ratio of Earnings to Fixed Charges	1.61	2.66	3.49	2.97	3.22
Ratio of Earnings to Fixed Charges and Preferred Dividend Requirements	1.07	2.25	3.12	2.50	2.61

* Avista Utilities amounts contain the consolidating intersegment eliminations.

(1) In December 1998, the Company converted shares of common stock for Convertible Preferred Stock, which was responsible for a number of changes in the data in 1999 and 1998 from 1997. (See Note 15 of Notes to Financial Statements.)

(2) Assumes the Convertible Preferred Stock was converted back to common stock. (See Note 19 of Notes to Financial Statements.)

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

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

(See Note 9 of Notes to Financial Statements.)

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

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

Avista Utilities provides electric transmission and electric and natural gas distribution services to retail customers. It is also responsible for the generation and production of electric energy, electric wholesale marketing, and electric commodity trading, primarily for the purpose of optimizing system resources. Wholesale marketing includes sales and purchases under long-term contracts with one-year and longer terms. Electric commodity trading includes short-term sales and purchases, such as next hour, next day and monthly blocks of energy. Wholesale marketing and trading activities are primarily with other utilities and power brokers in the Western Systems Coordinating Council (WSCC).

The Energy Trading and Marketing line of business is comprised of Avista Energy, Inc. (Avista Energy), Avista Power, Inc. (Avista Power) and Avista-STEAG, LLC (Avista-STEAG). Avista Energy is an electricity and natural gas marketing and trading business. In 1999, Avista Energy began conducting business on a national basis with its acquisition of Vitol Gas & Electric, LLC (Vitol). However, market factors changed significantly during the year, and by the end of 1999, Avista Energy decided to reduce its risk by redirecting its focus away from national energy trading toward a more regionally-based energy marketing and trading effort, primarily within the Western Systems Coordinating Council (WSCC). Avista Power was formed in December 1998 to develop and own generation assets primarily in support of Avista Energy. Avista-STEAG was created in 1999 as a joint venture between Avista Capital and STEAG AG, a German independent power producer, to develop electric generating assets. See Liquidity and Capital Resources: Risk Management.

The Information and Technology line of business is comprised of Avista Advantage, Inc. (Avista Advantage), Avista Laboratories, Inc. (Avista Labs), Avista Fiber, Inc. (Avista Fiber) 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 on a national basis. Its primary product lines include consolidated billing, resource accounting, energy analysis, load profiling and maintenance and repair billing services. Avista Labs is in the process of developing Proton Exchange Membrane (PEM) fuel cells for power generation at the site of the consumer. Avista Communications is a Competitive Local Exchange Carrier (CLEC) providing local dial tone, data transport, internet services, voice messaging and other telecommunications services to under-served communities in the Western United States. During 2000, Avista Fiber, a subsidiary started in 1996, and Avista Communications will merge operations. Avista Communications will then be additionally responsible for designing, building and managing metropolitan area fiber optic networks, services formerly provided by Avista Fiber.

The Pentzer and Other line of business includes Pentzer Corporation (Pentzer), Avista Development, Inc. (Avista Development) and Avista Services, Inc. (Avista Services). Pentzer was the parent company to the majority of the Company's other subsidiary businesses until 1999, when it sold two groups of its portfolio companies. Pentzer's business strategy was such that its earnings resulted from both transactional and non-transactional earnings. Transactional gains have arisen from one-time events or specific transactions, such as the sale of an investment or companies from Pentzer's portfolio of investments. Non-transactional earnings arise out of the ongoing operations of the individual portfolio companies. Avista Development holds other community investments, including real estate, tax credit housing and other assets. Avista Services is the marketing arm of Avista Utilities that offers products and services to existing utility customers, including energy consulting, mail order merchandising and sales of items such as surge protectors and generators.

Regulatory, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company's strategy is to focus on continuing its growth as a leading provider of energy, and information and technology services.

The Company's growth strategy exposes it to risks, including risks associated with rapid expansion, challenges in recruiting and retaining qualified personnel, risks associated with acquisitions and joint ventures and increasing competition. In addition, the energy trading and marketing business exposes the Company to the financial and credit

risks associated with commodity trading activities. The Company believes that its extensive experience in the electric and natural gas business, coupled with its strong management team, will allow the Company to effectively manage its further development as a diversified energy, information and technology company.

The Company changed the way it reports business segments in this Form 10-K from the 1998 Form 10-K. In the 1998 Form 10-K and the quarterly Form 10-Q reports for 1999, the Company reported Avista Utilities information by its two separate lines of business - (1) Energy Delivery and (2) Generation and Resources. The National Energy Trading and Marketing line of business included results of Avista Energy, Avista Advantage and Avista Power. The Non-Energy line of business included Pentzer and all of the remaining subsidiaries' activities. The business segment presentation in this Form 10-K reflects the basis currently used by the Company's management to analyze performance and determine the allocation of resources. Avista Utilities' business is now managed based on the total regulated operations, not by individual segments. The Energy Trading and Marketing line of business changed its focus from a national emphasis to a regional effort, but its operations are non-regulated, as opposed to Avista Utilities' operations. The Information and Technology line of business reflects the current efforts of the Company to grow those businesses and focus on generating shareholder value. Pentzer and Other reports on the other non-utility operations of various subsidiaries.

RESULTS OF OPERATIONS

OVERALL OPERATIONS

1999 COMPARED TO 1998

Overall reported basic earnings per share for 1999 were $0.12, compared to $1.28 in 1998. In December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of Convertible Preferred Stock, Series L, which resulted in an increase of $13.4 million in preferred stock dividend requirements in 1999 over 1998. Excluding the effects of this transaction, earnings per share would have been $0.44 in 1999, compared to $1.35 in 1998. The primary reason for the decrease was a $60.7 million after-tax loss recorded by the Energy Trading and Marketing line of business, due to a $27.3 million after-tax charge recorded by Avista Energy related to the downsizing and restructuring of the business, and $32.1 million of after-tax operational losses due to warmer than normal weather across the nation, soft national energy markets and a lack of volatility within those markets. The restructuring charge includes a charge for impairment of assets from the purchase of Vitol in February 1999 and reserves for severance and other related expenses. In addition, the utility operations recorded charges of approximately $5 million related to the impairment of utility assets, which were partially offset by the reversal of certain environmental reserves. These charges were partially offset by the $35.9 million of transactional gains recorded by Pentzer due to the sales of two groups of portfolio companies.

Net income available for common stock decreased $65.1 million in 1999 from 1998. Avista Utilities' income available for common stock decreased $9.8 million from 1998 due to the increased preferred stock dividend associated with the Convertible Preferred Stock, contributing $1.00 per basic share for 1999, compared to $0.88 in 1998. Energy Trading and Marketing's income available for common stock decreased $74.9 million from 1998, for a loss of $1.59 per basic share in 1999, as compared to a contribution of $0.26 per share in 1998, due primarily to the restructuring charges and operational losses discussed above. Information and Technology's income available for common stock decreased $6.8 million from 1998, for a loss of $0.27 per share in 1999, compared to a loss of $0.06 in 1998, due primarily to continued start-up and expansion costs. Pentzer and Other subsidiaries' operating income available for common stock increased $26.3 million in 1999 and contributed $0.98 to basic earnings per share in 1999, compared to $0.20 per share in 1998. Transactional gains recorded by Pentzer totaled $35.9 million, or $0.94 per share, and $4.3 million, or $0.08 per share, in 1999 and 1998, respectively.

Total revenues increased $4.22 billion in 1999 over 1998, primarily due to the growth of Avista Energy's business as a result of its acquisition of Vitol. Resource costs increased $4.40 billion, again primarily as a result of the growth in Avista Energy's business. Intersegment eliminations represent the transactions between Avista Utilities and Avista Energy for commodities and services. The large increase in 1999 over 1998 was primarily due to an agreement whereby Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' retail customers. Gross margins for Avista Utilities decreased $3.0 million primarily due to larger increases in purchased power costs than in the associated wholesale revenues. Avista Energy's gross margin decreased $66.6 million to a negative $17.9 million, primarily due to losses on positions taken in anticipation of certain weather patterns in particular areas of the country which did not occur as planned. Operations and maintenance expenses decreased $74.4 million, primarily due to decreased

expenses as a result of the sales of portfolio companies by Pentzer. Administrative and general expenses decreased $1.8 million primarily due to decreased expenses as a result of the sales of portfolio companies by Pentzer, partially offset by increased salary expenses from the growth in Avista Energy's business and the purchase of Vitol, which added significantly to staffing levels, and increased start-up costs at the Information and Technology companies.

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

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

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

1998 COMPARED TO 1997

Overall reported earnings per share for 1998 were $1.28, compared to $1.96 in 1997. The primary factors causing the decrease from 1997 were an income tax recovery, net of associated items, which increased 1997 earnings per share by $0.49, and decreased operating income from Avista Utilities' wholesale electric operations in 1998. In addition, in December 1998, the Company exchanged 15,404,595 shares of its common stock for shares of Convertible Preferred Stock (see Notes 15 and 19 of Notes to Financial Statements for additional information about the new Convertible Preferred Stock and earnings per share). If these shares had been exchanged at the beginning of the year, basic and diluted earnings per share for 1998 would have been $1.39 and $1.35, respectively.

Net income available for common stock decreased $39.7 million in 1998 from 1997. The 1998 results primarily reflect hydroelectric generation 21% lower than 1997 and increased purchased power prices and volumes, partially offset by improved earnings at Avista Energy. In addition, the 1997 results include the impact of $41.4 million, after-tax, in an income tax recovery from the Internal Revenue Service, which was partially offset by $14.0 million, after-tax, in environmental reserves and non-recurring adjustments (see below and Note 9 of Notes to Financial Statements for additional information about the income tax recovery). Excluding these items, Avista Utilities' income available for common stock decreased $20.2 million, or 30%, in 1998, contributing $0.88 to earnings per share in 1998, compared to $1.70 in 1997. Energy Trading and Marketing income available for common stock increased $8.8 million, contributing $0.26 to earnings per share in 1998 as compared to $0.10 in 1997 when there were only 5 months of operations. Information and Technology companies recorded losses totaling $0.06 per basic share in both 1998 and 1997. Pentzer and Other subsidiaries' operating income available for common stock decreased $1.0 million in 1998 and contributed $0.20 to earnings per share in 1998, compared to $0.22 in 1997. Transactional gains recorded by Pentzer totaled $4.3 million, or $0.08 per share, and $7.3 million, or $0.13 per share, in 1998 and 1997, respectively.

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

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

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

AVISTA UTILITIES

1999 COMPARED TO 1998

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

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

Non-retail sales are sales of natural gas on an off-system basis, to other utilities and large industrial customers outside of Avista Utilities' service territories. Revenues from these sales are offset by like increases in purchased gas expense, and margins from these transactions are credited back to customers through rate changes for the cost of natural gas. Non-retail sales decreased in 1999 primarily due to the agreement whereby Avista Energy serves as agent for Avista Utilities, managing its pipeline transportation and natural gas storage assets, as well as purchasing natural gas for Avista Utilities' customers, in order to optimize the value of its resources. Avista Energy will make these sales in the future, if it is optimal to managing the natural gas portfolio. The utility commissions of Washington, Idaho and Oregon have approved Benchmark Incentive Mechanisms that allow Avista Utilities and its customers to share some of the benefits of Avista Energy's resource optimization activities.

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

1998 COMPARED TO 1997

Avista Utilities' pre-tax income from operations decreased $35.2 million, or 20%, in 1998 from 1997. Operating revenues and expenses increased $157.5 million and $192.8 million, respectively, in 1998.

Wholesale electric revenues increased $127.4 million, primarily due to sales volumes 17% higher and prices 18% higher in 1998 than 1997. Total natural gas revenues increased $27.4 million in 1998 over 1997, primarily due to a combination of 4.4% customer growth, increased natural gas prices approved by the Washington Utilities and Transportation Commission (WUTC), effective in January 1998, and an increase in non-retail sales, partially offset by decreased customer usage as a result of weather 8% warmer in 1998 than 1997.

Resource costs account for the majority of the increase in Avista Utilities' operating expenses. Purchased power volumes increased 17% and prices were 30% higher in 1998 than 1997, which resulted in a $161.2 million, or 52%, increase in purchased power expense in 1998 over 1997. Natural gas purchased costs increased $15.3 million due to increased therm sales. Fuel for generation increased $9.8 million due to increased generation at the thermal plants as a result of increased wholesale electric sales.

ENERGY TRADING AND MARKETING

Energy Trading and Marketing includes the results of Avista Energy, Avista Power, and Avista-STEAG. Avista Power and Avista-STEAG operations had little or no impact on earnings in either 1999 or 1998. Although Avista Energy began incurring start-up costs during 1996, it only became operational in July 1997 and began trading operations in August 1997. Avista Energy maintains a trading portfolio that it marks to fair market value on a daily basis (mark-to-market accounting), and which may cause earnings variability in the future.

1999 COMPARED TO 1998

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

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

In November 1999, the decision was made to reduce Avista Energy's risk by redirecting its focus away from national energy trading toward a more regionally-based energy marketing and trading effort in the West backed by contracts for energy commodities and by the output of specific facilities available under contract. The change in strategy followed significant changes in the overall energy trading and marketing industry that created low margins while requiring higher levels of investment, credit commitments and value-at-risk limits. Mergers and consolidations within the industry also created a small number of large players, and a marketplace where liquidity and volatility were not favorable. Avista Energy is shutting down its operations in Houston and Boston, which will eliminate approximately 80 positions. Avista Energy sought a buyer for the Eastern book of business, and is currently in the process of closing that transaction. The electric contracts will likely be sold at approximately book value. To date, Avista Energy has not found a buyer for the natural gas or coal contracts. Avista Energy already has prudency and credit reserves recorded on its books that will likely cover any remaining risks associated with these Eastern contracts.

During 1999, Avista Energy derived the majority of its revenues from trading activities, rather than marketing activities. Marketing activities are defined as structured deals with non-standard products. The contracts are usually of one-year or longer terms, and are designed to meet the customers' specific requirements as to timing and amounts. Customers are primarily large, end-use customers or utilities. With the redirection in focus, Avista Energy plans to eventually derive more revenues from marketing activities rather than trading activities. However, due to the current portfolio of contracts in place, it will require several years to fully accomplish this transition. Current expectations are for losses to continue through the first three quarters of 2000 due to contracts still in place and further expenses relating to the downsizing of the business.

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

1998 COMPARED TO 1997

Energy Trading and Marketing's income available for common stock increased $8.8 million in 1998 over 1997. (Year-to-year results are not comparable since 1998 results reflect a full year of operations at Avista Energy and 1997 only represents five months of operations.) Energy Trading and Marketing's operating revenues and expenses increased $2.16 billion and $2.15 billion, respectively, during 1998 as compared to 1997.

Avista Energy provided positive results in 1998 despite the price volatility experienced in power markets in the Midwest and East during various periods of the year. The company was well-positioned in its market, which allowed net gains in its portfolio during periods of high volatility. Avista Energy expected high volatility in Eastern electric markets in the summer of 1998 based on expected demand and the high probability of a weather-related impact on

markets in the summer of 1998 based on expected demand and the high probability of a weather-related impact on energy prices. As a result, Avista Energy established positions in anticipation of volatile market swings, and in turn experienced positive earnings in its portfolio during this period.

INFORMATION AND TECHNOLOGY

The Information and Technology line of business includes the results of Avista Advantage, Avista Labs, Avista Fiber and Avista Communications. Avista Communications began operations in early 1999. Avista Corp. has committed to invest in the development and build-up of these information and technology start-up businesses as part of its overall strategic focus on generating shareholder value.

1999 COMPARED TO 1998

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

1998 COMPARED TO 1997

Revenues and expenses for the companies in this line of business increased in 1998 over 1997, primarily due to start-up costs in each of the businesses. However, losses from operations totaled slightly more than $5.0 million in both years, and income available for common stock was a loss of $3.4 million in both 1998 and 1997.

PENTZER AND OTHER

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

1999 COMPARED TO 1998

Income available for common stock for 1999 from Pentzer and other subsidiaries totaled $37.5 million, which is a $26.3 million increase over 1998. The increased earnings resulted primarily from transactional gains recorded by Pentzer in 1999 totaling $35.9 million, net of taxes, from the sales of two groups of portfolio companies. Transactional gains during 1998 totaled $4.3 million, net of taxes, as a result of the sale of a portfolio company. Non-transactional earnings totaled $1.2 million in 1999, a decrease of $6.2 million from 1998, primarily due to the loss of income resulting from the sales of portfolio companies. Operating revenues and expenses decreased $109.2 million and $96.7 million, respectively, primarily as a result of the sales of portfolio companies by Pentzer.

1998 COMPARED TO 1997

Income available for common stock for 1998 from Pentzer and other subsidiaries was $11.1 million, which was a $1.0 million decrease from 1997 earnings. Transactional gains decreased to $4.3 million in 1998 from $7.3 million in 1997, while non-transactional earnings from Pentzer's portfolio companies increased $2.2 million. The non-transactional earnings included an approximate $4.4 million after-tax loss in the fourth quarter at a Pentzer operating company due to a business repositioning and an inventory adjustment.

Income from operations totaled $12.0 million, which was a $2.1 million increase over 1997. Operating revenues and expenses increased $67.9 million and $65.8 million, respectively, primarily as a result of acquisitions and increased business activity from several of Pentzer's portfolio companies.

LIQUIDITY AND CAPITAL RESOURCES

AVISTA CORP. OVERALL OPERATIONS

Operating Activities Net cash provided by operating activities in 1999 decreased from 1998 due primarily to decreased net income in 1999 and the $143.4 million provided by the monetization of a contract in 1998 (see below and Note 1 of Notes to Financial Statements for additional information). The growth in Avista Energy's operations resulted in the large changes in various working capital components, such as receivables and payables.

Investing Activities Net cash used in investing activities decreased in 1999 from 1998 primarily due to the sales of portfolio companies by Pentzer in 1999. Utility operations' capital expenditures, excluding Allowance for Funds Used During Construction (AFUDC) and Allowance for Funds Used to Conserve Energy (AFUCE, a carrying charge similar to AFUDC for conservation-related capital expenditures), were $265 million for the 1997-1999 period.

Financing Activities Net cash used in financing activities totaled $116.8 million in 1999 compared to $108.7 million in 1998. In 1999, $110.5 million in short-term notes payable were issued and $116.5 million of proceeds were received from the issuance of long-term debt, including $25.0 million of Medium-Term Notes (MTNs). These proceeds, plus cash provided from operating activities, were used to retire $211.5 million of long-term debt and repurchase $82.0 million of common stock and $5.9 million of preferred stock. In 1998, $84.0 million of proceeds were received from the issuance of Medium-Term Notes. These proceeds, plus cash provided from operating activities, were used to retire $14.0 million of long-term debt, redeem $10 million of preferred stock and pay down $108.5 million of short-term debt. During the 1997-1999 period, $359 million of long-term debt and preferred stock matured, was mandatorily redeemed or was optionally redeemed and refinanced at a lower cost.

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

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

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

In September 1999, $83.7 million of Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project), Series 1999A due 2032 and Series 1999B due 2034 were issued by the City of Forsyth, Montana. The proceeds of the bonds were utilized to refund the $66.7 million of 7 1/8% First Mortgage Bonds due 2013 and the $17.0 million of 7 2/5% First Mortgage Bonds due 2016. The Series 1999A and Series 1999B Bonds are backed by

an insurance policy issued by AMBAC Assurance Corporation and bear interest on a floating rate basis that is reset periodically. The initial interest rate until February 2000 was 3.6% and is currently 3.75%.

In August 1999, the Company completed the documentation to issue $400 million of MTNs, Series D. As of December 31, 1999, the Company had a total of $541.0 million of MTNs authorized to be issued.

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

Capital expenditures are financed on an interim basis with notes payable. The Company has $260 million in committed lines of credit. In addition, the Company may currently borrow up to $100 million through other borrowing arrangements with banks. As of December 31, 1999, $75.0 million was outstanding under the committed lines of credit and $33.5 million was outstanding under other short-term borrowing arrangements.

In October 1999, the Company implemented a $50.0 million commercial paper program. As of December 31, 1999, $10.0 million of commercial paper was outstanding.

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

The Company is restricted under various agreements as to the additional securities it can issue. As of December 31, 1999, under its Restated Articles of Incorporation, approximately $215.0 million of additional preferred stock could be issued at an assumed dividend rate of 6.95%.

During 1998, the Company entered into an agreement that increased the amount of customer accounts receivable the Company could sell from $40 million to $80 million to provide additional funds for capital expenditures, maturing long-term debt and preferred stock sinking fund requirements. At December 31, 1999, $45.0 million in receivables had been sold pursuant to the agreement.

AVISTA UTILITIES OPERATIONS

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

During the 2000-2002 period, utility capital expenditures are expected to be $320 million, and $137 million will be required for long-term debt maturities and preferred stock sinking fund requirements. During this three-year period, the Company estimates that internally generated funds will provide all of the funds needed for its capital expenditure program. External financing will be required to fund a portion of maturing long-term debt and preferred stock sinking fund requirements. Sources of funds would include, but are not necessarily limited to, cash flows from the reduction in the Company's common stock dividend, sales of certain assets, additional long-term debt, leasing or issuance of other equity securities. These estimates of capital expenditures are subject to continuing review and adjustment. Actual capital expenditures may vary from these estimates due to factors such as changes in business conditions, construction schedules and environmental requirements.

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

ENERGY TRADING AND MARKETING OPERATIONS

During 1999, the Company invested $40.0 million in the common equity of Avista Capital. Avista Capital utilized the majority of the proceeds from this investment to fund Avista Energy's operations. Avista Capital's total investment in this line of business totaled $86.0 million at December 31, 1999. Avista Energy funds its ongoing operations with a combination of internally generated cash and a bank line of credit.

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of $110 million, expiring May 31, 2000. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparties. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is $30 million, with availability of up to $110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At December 31, 1999 and 1998, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately $75.8 million and $20.2 million at December 31, 1999 and 1998, respectively.

Capital expenditures for the Energy Trading and Marketing companies were $9.3 million for the 1997-1999 period. The 2000-2002 capital expenditures are expected to be $293.9 million, and $0.3 million in debt maturities will also occur. The large capital requirement projections are primarily for the development and/or ownership of generation assets. The companies expect to seek outside funding through partnerships or other arrangements to support these capital requirements.

At December 31, 1999, the Energy Trading and Marketing companies had $37.2 million in cash and cash equivalents and $1.5 million in long-term debt outstanding.

INFORMATION AND TECHNOLOGY OPERATIONS

Capital expenditures for the Information and Technology companies were $21.7 million for the 1997-1999 period. The 2000-2002 capital expenditures are expected to be $74.9 million. These companies expect to seek outside funding through partnerships or other arrangements to support these capital requirements.

At December 31, 1999, the Information and Technology companies had $5.3 million in cash and marketable securities with $3.5 million in long-term debt outstanding.

In early 1999, Avista Labs announced the receipt of a $2 million technology development award from the Department of Commerce's National Institute of Standards and Technology Advanced Technology Program. The Company will contribute another $1.22 million over a two-year period. Avista Labs is working on technology that will increase the energy density of its fuel cell design and develop multiple fuel processing approaches using propane, methane and methanol as base fuels to integrate into its fuel cell subsystem.

PENTZER AND OTHER OPERATIONS

Capital expenditures for these companies were $24.4 million for the 1997-1999 period. During this period, $46.7 million of debt was repaid and capital expenditures were partially financed by the $55.8 million in proceeds from new long-term debt. The 2000-2002 capital expenditures are expected to be $1.9 million, and $5.9 million in debt maturities will also occur. During the next three years, internally generated cash and other debt obligations are expected to provide the majority of the funds for these capital expenditure requirements. The decrease in these projected capital expenditures is primarily related to the change in Pentzer's focus beginning in 2000.

The operations have $27.5 million in short-term borrowing arrangements ($2.5 million outstanding as of December 31, 1999) to fund corporate requirements on an interim basis. At December 31, 1999, these companies had $8.7 million in cash and marketable securities with $4.9 million in long-term debt outstanding.

TOTAL COMPANY CASH REQUIREMENTS
(Millions of Dollars)

	Actual			Projected		
	1997	1998	1999	2000	2001	2002
Avista Utilities operations:						
Capital expenditures(1)	$ 87	$ 92	$ 86	$116	$103	$101
Debt and preferred stock maturities(2)	121	24	214	45	40	52
Total Avista Utilities	208	116	300	161	143	153
Avista Capital operations:						
Capital expenditures(3)	12	14	29	71	165	135
Investments	59	53	51	--	41	33
Debt maturities	12	18	3	4	1	1
Total Avista Capital	83	85	83	75	207	169
Total Company	$291	$201	$383	$236	$350	$322

(1) Capital expenditures exclude AFUDC and AFUCE.

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

(3) Represents Avista Capital's portion of projected joint projects. Some projected capital expenditures may depend on the availability of additional funding from other outside sources.

The Company's total common equity decreased $94.5 million to $393.5 million at the end of 1999. The decrease was primarily due to the common stock repurchase program and payment of dividends in excess of net income. The Company's consolidated capital structure at December 31, 1999, was 47% debt, 27% preferred securities (including the Preferred Trust Securities) and 26% common equity as compared to 45% debt, 25% preferred securities (including the Preferred Trust Securities) and 30% common equity at year-end 1998. Had the convertible preferred stock been converted back to common stock, the Company's consolidated capital structure at December 31, 1999, would have been 47% debt, 10% preferred securities (including the Preferred Trust Securities) and 43% common equity as compared to 45% debt, 9% preferred securities (including the Preferred Trust Securities) and 46% common equity at year-end 1998.

ADDITIONAL FINANCIAL DATA

At December 31, 1999, the total long-term debt of the Company and its consolidated subsidiaries, as shown in the Company's consolidated financial statements, was approximately $718.2 million. Of such amount, $236.0 million represents long-term unsecured and unsubordinated indebtedness of the Company, and $351.2 million represents secured indebtedness of the Company. The balance of $131.0 million includes short-term notes to be refinanced as well as indebtedness of the subsidiaries. Consolidated long-term debt does not include the Company's subordinated indebtedness held by the issuers of Company-obligated preferred trust securities.

FUTURE OUTLOOK

Business Strategy

Regulatory, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company's strategy is to focus on continuing its growth as a leading provider of energy, and information and technology services.

The Company seeks to maintain a strong, low-cost utility business as well as to focus on growing Avista Advantage, Avista Labs and Avista Communications. The Company intends to continue investing in the development of these growth subsidiaries while continuing to search for opportunities to grow its utility business and increase its asset and customer base. Key strengths of the Company include its position as a leading e-commerce portal for energy/facility management and patented web-based programming, a developer of innovative fuel cell technology, and a regional provider of telecommunications and fiber optics services, as well as being one of the lowest cost producers of power in the nation.

Locally. Part of the Company's strategy for 1999 was to expand the utility service territory through acquisitions, but the lack of economically feasible acquisition opportunities and the uncertainty of favorable state commission approvals led to a change in strategies. The Company decided to concentrate on other growth avenues, such as the

information and technology businesses, to generate shareholder value. However, the Company will selectively add to its already strong foundation of state-regulated utility assets, solidifying its position as a leading supplier of low-cost electric and natural gas energy services, if the right opportunities arise. The Company will also continue to grow its rate base through customer growth and capital expenditures.

Regionally. The Company plans to concentrate on growing its telecommunications and fiber optic business as part of its overall strategic focus on generating shareholder value. In addition, the Company plans to add to its regulated and non-regulated energy-related assets on a regional basis as the industry consolidates to further optimize its assets and create greater economies of scale. The growth is expected to be driven by the Company's significant base of knowledge and experience in the operation of physical systems - for both electric energy and natural gas - in the region, as well as its relationship-focused approach to the customer.

Nationally. The Company will seek to expand its customer base through the growth of Avista Advantage, with its Internet-based specialty billing and information services, and Avista Labs, with its innovative fuel cell technologies, as part of its overall strategic focus on generating shareholder value.

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

In 1999, the Company conducted the majority of its non-energy business through Pentzer, its wholly owned subsidiary. Pentzer's business strategy was to acquire controlling interests in a broad range of middle market companies, facilitate improved productivity and growth, and ultimately sell such companies to the public or a strategic buyer. Beginning in 2000, Pentzer's business strategy is to invest in companies that are positioned to be leaders in emerging technology and information businesses that are linked to the energy business. The investments will be directly in businesses that meet these criteria, and indirectly, through the strategic investment in certain venture capital firms that invest in similar business segments and where Pentzer has the opportunity to directly invest in specific portfolio companies. Pentzer's goal is to produce strategic growth opportunities and financial returns for the Company's shareholders that, over the long-term, should be higher than that of the utility operations.

General Competition and Business Risk

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

Natural gas remains competitively priced compared to other alternative fuel sources for residential, commercial and industrial customers and is projected to remain so into the future due to abundant supplies and competition. Challenges facing Avista Utilities' retail natural gas business include the potential for customers to by-pass its natural gas system. To reduce the potential for such by-pass, Avista Utilities prices its natural gas services, including transportation contracts, competitively and has varying degrees of flexibility to price its transportation and delivery rates by means of special contracts. Avista Utilities has long-term transportation contracts with seven of its largest industrial customers, which reduces the risks of these customers by-passing the system in the foreseeable future.

Avista Utilities and Avista Energy continue to compete in the electric wholesale market with other utilities, federal marketing agencies and power marketers. It is expected that competition to sell capacity will remain vigorous, and that prices will remain depressed for at least the next several years, due to increased competition and surplus capacity in the western United States. Competition related to the sale of capacity and energy is influenced by many factors, including the availability of capacity in the western U.S., the availability and prices of natural gas and oil, spot energy prices and transmission access. Business challenges affecting the Avista Utilities and Energy Trading and Marketing lines of business include competition from low-cost generation being developed by independent power producers,

declining margins due to a greater reliance on short-term sales, evolving technologies that provide alternate energy supplies and deregulation of electric and natural gas markets.

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

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

Energy Trading Business

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

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

Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply (in the case of electricity, adequacy of generating reserve margins, as well as scheduled and unscheduled outages of generating facilities or disruptions to transmission facilities) and demand (caused by extreme variations in the weather and other factors). Market risk includes the risk of fluctuation in the market price of associated derivative commodity instruments. All market risk is influenced to the extent that the performance or non-performance by market participants of their contractual obligations and commitments affect the supply of, or demand for, the commodity.

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

Avista Capital provides guarantees for Avista Energy's line of credit agreement, and in the course of business may provide guarantees to other parties with whom Avista Energy may be doing business. The Company's investment in Avista Capital totaled $230.1 million at December 31, 1999.

Risk Management

The risk management process established by the Company is designed to measure both quantitative and qualitative risk in the business. Avista Utilities and Avista Energy have adopted policies and procedures to manage the risks inherent in their businesses and have established a comprehensive Risk Management Committee, separate from the units that create the risk exposure and overseen by the Audit and Finance Committee of the Company's Board of Directors, to monitor compliance with the Company's risk management policies and procedures on a regular basis. Nonetheless, adverse changes in interest rates, commodity prices and foreign currency exchange rates may result in losses in earnings, cash flow and/or fair values.

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

Interest Rate Risk The Company is subject to the risk of fluctuating interest rates in the normal course of business. The fair value of the Company's cash and short-term investment portfolio and the fair value of notes payable at December 31, 1999 approximated carrying value. Given the short-term nature of these instruments, market risk, as measured by the change in fair value resulting from a hypothetical change in interest rates, is immaterial.

The Company manages interest rate risk by taking advantage of market conditions when timing the issuance of long-term financings and optional debt redemptions and through the use of fixed rate long-term debt with varying maturities. A portion of the Company's capitalization consists of floating rate Pollution Control Bonds, of which the interest rate resets periodically, and Company-Obligated Mandatorily Redeemable Preferred Trust Securities, of which the interest portion of the $50 million Series B resets on a quarterly basis, both reflecting current market conditions. As of December 31, 1999, a hypothetical 15% change in interest rates would result in an immaterial change in the Company's cash flows related to the increased interest expense associated with these floating rate securities.

Commodity Price Risk Avista Utilities and Avista Energy are exposed to market fluctuations in the price and transportation costs of electric and natural gas commodities and, therefore, utilize derivative commodity instruments to hedge the impact of these fluctuations on their energy-related assets, liabilities, and other contractual arrangements. In addition, Avista Energy trades these instruments to take advantage of market opportunities. At times this may create a net open position in its portfolio that could result in material losses if prices do not move in the manner or direction anticipated. The Company and Avista Energy's risk management program and policies are designed to manage the risks associated with market fluctuations in the price of electricity and natural gas commodities (see Note 4 of Notes to Financial Statements for additional information).

Avista Energy measures the risk in its derivative commodity portfolio on a daily basis utilizing a Value-at-Risk (VAR) model and monitors its risk in comparison to established thresholds. VAR measures the worst expected loss

over a given time interval under normal market conditions at a given confidence level. Avista Utilities and Avista Energy also use other measures to monitor the risk in their derivative commodity portfolios on a monthly, quarterly and annual basis.

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

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

At December 31, 1999, Avista Energy's estimated potential one-day unfavorable impact on gross margin was $1.1 million, as measured by VAR, related to its commodity trading and marketing business, compared to $3.3 million at December 31, 1998. The average daily VAR for 1999 was $3.7 million, compared to $3.0 million in 1998. After Avista Energy's restructuring is complete, the average daily VAR is expected to be less than $1.0 million. Changes in markets inconsistent with historical trends or assumptions used could cause actual results to exceed predicted limits. Market risks associated with derivative commodity instruments held for purposes other than trading were not material at December 31, 1999.

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

Foreign Currency Risk The Company has investments in several Canadian companies through Avista Energy Canada, Ltd. and its acquisition of Coast Pacific Management, Inc. (see Note 23 for additional information about this acquisition). The Company's exposure to foreign currency risk and other foreign operations risk was immaterial to the Company's consolidated results of operations and financial position in 1999 and is not expected to change materially in the near future.

Economic and Load Growth

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

Avista Utilities anticipates residential and commercial electric load growth to average approximately 2.8% annually for the next five years primarily due to increases in both population and the number of businesses in its service territory. The number of electric customers is expected to increase and the average annual usage by residential customers is expected to remain steady on a weather-adjusted basis. A Public Utility Regulatory Policies Act of 1978 (PURPA) contract with Avista Utilities' largest customer expires in 2002. The customer is expected to self-generate at that time, which will reduce the load to this customer by the amount Avista Utilities has been purchasing and then reselling to them. Although it will have no material impact on loads, it will reduce Avista Utilities' costs since the PURPA contract is at above-market prices.

Avista Utilities anticipates natural gas load growth, including transportation volumes, in its Washington and Idaho service area to average approximately 2.4% annually for the next five years. The Oregon and South Lake Tahoe, California service areas are anticipated to realize 3.6% growth annually during that same period. The anticipated natural gas load growth is primarily due to expected conversions from electric space and water heating to natural gas, and increases in both population and the number of businesses in its service territory.

The forward-looking projections set forth above regarding retail sales growth are based, in part, upon purchased baseline economic forecasts and publicly available population and demographic studies. The expectations regarding retail sales growth are also based upon various assumptions including, without limitation, assumptions relating to

weather and economic and competitive conditions, internal analysis of company-specific data, such as energy consumption patterns and internal business plans, and an assumption that Avista Utilities will incur no material loss of retail customers due to self-generation or retail wheeling. Changes in the underlying assumptions can cause actual experience to vary significantly from forward-looking projections.

Environmental Issues

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

The Company received a new FERC operating license for the Cabinet Gorge and Noxon Rapids hydroelectric projects on February 23, 2000. The restoration of native salmonid fish, in particular bull trout, is a principal focus for the Company with the new license. Bull trout are native to this area and a "threatened" listing for bull trout occurred in 1998 under the ESA. The Company, as directed by the Clark Fork Projects' Settlement Agreement, is working closely with the U.S. Fish and Wildlife Service, Native American tribes and the states of Idaho and Montana to institute coordinated recovery measures on the lower Clark Fork River. The new FERC license establishes a plan for bull trout restoration, including annual budget estimates.

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

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

Year 2000

Since 1997 the Company worked on a comprehensive program to address areas of risk associated with the Year 2000. The Year 2000 project was organized around project activity teams that were formed to identify, test and fix systems and programs that might be affected by the rollover into the Year 2000. The Company experienced no Year 2000-related disruptions in its systems used to deliver electricity and natural gas commodities and services to customers, or in any of its other desktop or business systems. Through December 31, 1999, the Company spent $6.0 million in incremental costs for its Year 2000 project, which were funded through operating cashflows.

OTHER

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

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

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

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

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

combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Avista Utilities' Operations -

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

Energy Trading and Marketing Operations -

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

Information, Technology, Pentzer and Others' Operations -

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

Factors Common to All Operations -

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Results and Operations: Future Outlook: General Competition and Business Risk, Energy Trading Business, and Risk Management."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

INDEPENDENT AUDITORS' REPORT

Avista Corporation
Spokane, Washington

We have audited the accompanying consolidated balance sheets and statements of capitalization of Avista Corporation and subsidiaries (the Company) as of December 31, 1999 and 1998, and the related consolidated statements of income, comprehensive income and retained earnings, and cash flows, which include the schedule of information by business segments for each of the three years in the period ended December 31, 1999. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Seattle, Washington
February 4, 2000 (February 16, 2000 as to Note 15)

CONSOLIDATED STATEMENTS OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS
Avista Corporation
For the Years Ended December 31
Thousands of Dollars

	1999	1998	1997
OPERATING REVENUES	$ 7,904,984	$ 3,683,984	$ 1,302,172
OPERATING EXPENSES:			
Resource costs	7,417,940	3,021,046	717,732
Operations and maintenance	155,176	229,620	178,526
Administrative and general	127,958	129,771	96,611
Depreciation and amortization	76,474	70,547	69,893
Taxes other than income taxes	53,157	60,180	49,946
Asset impairment and restructuring charges	42,922	--	--
Total operating expenses	7,873,627	3,511,164	1,112,708
INCOME FROM OPERATIONS	31,357	172,820	189,464
OTHER INCOME (EXPENSE):			
Interest expense	(65,076)	(69,077)	(66,275)
Interest on income tax recovery	--	--	47,338
Net gain on subsidiary transactions	57,531	7,937	11,218
Other income (deductions)-net	18,959	9,794	(5,873)
Total other income (expense)-net	11,414	(51,346)	(13,592)
INCOME BEFORE INCOME TAXES	42,771	121,474	175,872
INCOME TAXES	16,740	43,335	61,075
NET INCOME	26,031	78,139	114,797
DEDUCT-Preferred stock dividend requirements	21,392	8,399	5,392
INCOME AVAILABLE FOR COMMON STOCK	$ 4,639	$ 69,740	$ 109,405
Average common shares outstanding, basic (thousands)	38,213	54,604	55,960
EARNINGS PER SHARE OF COMMON STOCK, BASIC AND DILUTED(Note 19)	$ 0.12	$ 1.28	$ 1.96
Dividends paid per common share	$ 0.48	$ 1.05	$ 1.24
NET INCOME	$ 26,031	$ 78,139	$ 114,797
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Foreign currency translation adjustment	376	(366)	--
Unrealized investment losses-net of reclassification adjustment	(201)	(2,052)	(3,627)
OTHER COMPREHENSIVE INCOME (LOSS)	175	(2,418)	(3,627)
COMPREHENSIVE INCOME	$ 26,206	$ 75,721	$ 111,170
RETAINED EARNINGS, JANUARY 1	$ 120,445	$ 171,776	$ 131,301
NET INCOME	26,031	78,139	114,797
DIVIDENDS DECLARED:			
Preferred stock	(21,402)	(7,639)	(5,339)
Common stock	(18,301)	(56,898)	(69,390)
Transfer to Preferred Stock, Series L	--	(64,844)	--
Stock repurchase	(19,315)	--	--
Restricted stock	(84)	(419)	--
ESOP dividend tax savings	147	330	407
RETAINED EARNINGS, DECEMBER 31	$ 87,521	$ 120,445	$ 171,776

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED BALANCE SHEETS
Avista Corporation
- ----------
At December 31
Thousands of Dollars

	1999	1998
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 40,041	$ 72,836
Temporary cash investments	7,490	5,786
Accounts and notes receivable-net	530,774	456,857
Energy commodity assets	585,913	335,224
Materials and supplies, fuel stock and natural gas stored	28,352	42,140
Prepayments and other	21,499	55,753
Total current assets	1,214,069	968,596
UTILITY PROPERTY:		
Utility plant in service-net	2,184,698	2,095,301
Construction work in progress	30,912	45,391
Total	2,215,610	2,140,692
Less: Accumulated depreciation and amortization	714,773	669,750
Net utility plant	1,500,837	1,470,942
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	54,123	62,577
Non-utility properties and investments-net	137,213	206,773
Energy commodity assets	491,799	236,644
Other-net	31,051	26,016
Total other property and investments	714,186	532,010
DEFERRED CHARGES:		
Regulatory assets for deferred income tax	166,456	171,037
Conservation programs	44,444	49,114
Unamortized debt expense	31,122	28,414
Other-net	42,380	33,523
Total deferred charges	284,402	282,088
TOTAL	$3,713,494	$3,253,636
LIABILITIES AND CAPITALIZATION:		
CURRENT LIABILITIES:		
Accounts payable	$ 522,478	$ 406,457
Energy commodity liabilities	594,065	330,957
Taxes and interest accrued	35,123	38,628
Other	35,313	88,151
Total current liabilities	1,186,979	864,193
NON-CURRENT LIABILITIES AND DEFERRED CREDITS:		
Non-current liabilities	44,067	34,815
Deferred revenue (Note 1)	132,975	145,124
Energy commodity liabilities	441,372	207,948
Deferred income taxes	377,049	357,702
Other deferred credits	11,041	11,571
Total non-current liabilities and deferred credits	1,006,504	757,160
CAPITALIZATION (See Consolidated Statements of Capitalization)	1,520,011	1,632,283
COMMITMENTS AND CONTINGENCIES (Notes 10, 13 and 22)		
TOTAL	$3,713,494	$3,253,636

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

CONSOLIDATED STATEMENTS OF CAPITALIZATION
Avista Corporation
At December 31
Thousands of Dollars

	1999	1998
LONG-TERM DEBT:		
First Mortgage Bonds:		
Secured Medium-Term Notes:		
Series A - 6.13% to 7.90% due 2000 through 2023	$ 139,400	$ 211,500
Series B - 6.20% to 8.20% due 2000 through 2010	124,000	150,000
7 1/8% due December 1, 2013	--	66,700
7 2/5% due December 1, 2016	--	17,000
Total first mortgage bonds	263,400	445,200
Pollution Control Bonds:		
Floating Rate, Colstrip 1999A, due 2032	66,700	--
Floating Rate, Colstrip 1999B, due 2034	17,000	--
6% Series due 2023	4,100	4,100
Total pollution control bonds	87,800	4,100
Unsecured Medium-Term Notes:		
Series A - 7.94% to 9.57% due 2001 through 2007	31,000	38,500
Series B - 6.75% to 8.23% due 2001 through 2023	96,000	115,000
Series C - 5.99% to 8.02% due 2007 through 2028	109,000	84,000
Total unsecured medium-term notes	236,000	237,500
Notes payable (due within one year) to be refinanced	118,500	--
Other	12,503	43,222
Total long-term debt	718,203	730,022
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES:		
7 7/8%, Series A, due 2037	60,000	60,000
Floating Rate, Series B, due 2037	50,000	50,000
Total company-obligated mandatorily redeemable preferred trust securities	110,000	110,000
PREFERRED STOCK-CUMULATIVE:		
10,000,000 shares authorized:		
Subject to mandatory redemption:		
$6.95 Series K; 350,000 shares outstanding ($100 stated value)	35,000	35,000
Total subject to mandatory redemption	35,000	35,000
CONVERTIBLE PREFERRED STOCK:		
Not subject to mandatory redemption:		
$12.40 Convertible Series L; 1,508,210 and 1,540,460 shares outstanding ($182.80 stated value)	263,309	269,227
Total convertible preferred stock	263,309	269,227
COMMON EQUITY:		
Common stock, no par value; 200,000,000 shares authorized; 35,648,239 and 40,453,729 shares outstanding	318,731	381,401
Note receivable from employee stock ownership plan	(8,240)	(9,295)
Capital stock expense and other paid in capital	(4,347)	(4,176)
Other comprehensive income	(166)	(341)
Retained earnings	87,521	120,445
Total common equity	393,499	488,034
TOTAL CAPITALIZATION	$ 1,520,011	$ 1,632,283

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

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

For the Years Ended December 31
Thousands of Dollars

	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	$ 26,031	$ 78,139	$ 114,797
NON-CASH ITEMS INCLUDED IN NET INCOME:			
Depreciation and amortization	76,474	70,547	69,893
Provision for deferred income taxes	(1,085)	10,402	37,122
Allowance for equity funds used during construction	(1,040)	(1,283)	(1,323)
Power and natural gas cost deferrals and amortizations	(14,906)	(3,512)	(16,470)
Gain on sale of subsidiary investments and other-net	(32,278)	(6,313)	(389)
Impairment of assets	(33,622)	--	--
(Increase) decrease in working capital components:			
Sale of customer accounts receivable-net	20,000	(15,000)	--
Receivables and prepaid expense	(140,348)	(246,873)	(39,733)
Materials & supplies, fuel stock and natural gas stored	497	9,524	(8,050)
Payables and other accrued liabilities	164,908	246,208	55,163
Other	46,545	(17,336)	13,774
Monetization of contract	--	143,400	--
NET CASH PROVIDED BY OPERATING ACTIVITIES	111,176	267,903	224,784
INVESTING ACTIVITIES:			
Construction expenditures (excluding AFUDC-equity funds)	(87,160)	(92,942)	(89,016)
Other capital requirements	(29,451)	(14,920)	(11,696)
(Increase) decrease in other noncurrent balance sheet items-net	(7,712)	27,266	(3,765)
Proceeds from sale of subsidiary investments	148,851	16,385	11,606
Assets acquired and investments in subsidiaries	(51,729)	(52,780)	(43,308)
NET CASH USED IN INVESTING ACTIVITIES	(27,201)	(116,991)	(136,179)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	110,522	(108,500)	23,500
Proceeds from issuance of preferred trust securities	--	--	110,000
Proceeds from issuance of long-term debt	116,516	84,000	20,000
Redemption and maturity of long-term debt	(211,514)	(14,000)	(51,500)
Redemption of preferred stock	(5,918)	(10,000)	(70,000)
Repurchase of common stock	(81,985)	(1,475)	--
Cash dividends paid	(39,757)	(64,548)	(75,329)
Other-net	(4,634)	5,854	(22,894)
NET CASH USED IN FINANCING ACTIVITIES	(116,770)	(108,669)	(66,223)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(32,795)	42,243	22,382
CASH & CASH EQUIVALENTS AT BEGINNING OF PERIOD	72,836	30,593	8,211
CASH & CASH EQUIVALENTS AT END OF PERIOD	$ 40,041	$ 72,836	$ 30,593
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the period:			
Interest	$ 63,207	$ 64,402	$ 63,608
Income taxes	42,891	40,716	29,132
Noncash financing and investing activities:			
Property purchased under capitalized leases	2,557	1,209	4,521
Net unrealized holding gains (losses)	--	--	(5,050)
Notes receivable for sale of investment	--	25,000	--
Common stock and retained earnings transfer to preferred stock	--	276,821	--

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

SCHEDULE OF INFORMATION BY BUSINESS SEGMENTS
Avista Corporation
For the Years Ended December 31
Thousands of Dollars

	1999	1998	1997
OPERATING REVENUES:			
Avista Utilities	$ 1,115,647	$ 1,049,212	$ 891,665
Energy Trading and Marketing	6,695,671	2,408,734	247,028
Information and Technology	4,851	1,995	1,030
Pentzer and Other	122,303	231,483	163,598
Intersegment eliminations	(33,488)	(7,440)	(1,149)
Total operating revenues	$ 7,904,984	$ 3,683,984	$ 1,302,172
RESOURCE COSTS:			
Avista Utilities:			
Power purchased	$ 543,477	$ 470,604	$ 309,439
Natural gas purchased for resale	101,958	109,182	93,880
Fuel for generation	46,368	44,281	34,461
Other	46,012	44,309	48,644
Energy Trading and Marketing:			
Cost of sales	6,713,613	2,360,110	232,389
Intersegment eliminations	(33,488)	(7,440)	(1,081)
Total resource costs (excluding non-energy businesses)	$ 7,417,940	$ 3,021,046	$ 717,732
GROSS MARGINS:			
Avista Utilities	$ 377,832	$ 380,836	$ 405,241
Energy Trading and Marketing	(17,942)	48,624	14,639
Total gross margins (excluding non-energy businesses)	$ 359,890	$ 429,460	$ 419,880
OPERATIONS AND MAINTENANCE EXPENSES:			
Avista Utilities	$ 56,291	$ 60,847	$ 59,138
Energy Trading and Marketing	370	--	--
Information and Technology	7,732	3,902	3,247
Pentzer and Other	90,783	164,871	116,141
Total operations and maintenance expenses	$ 155,176	$ 229,620	$ 178,526
ADMINISTRATIVE AND GENERAL EXPENSES:			
Avista Utilities	$ 66,362	$ 69,693	$ 63,000
Energy Trading and Marketing	31,732	25,201	7,880
Information and Technology	7,351	2,607	2,816
Pentzer and Other	22,513	32,270	22,915
Total administrative and general expenses	$ 127,958	$ 129,771	$ 96,611
DEPRECIATION AND AMORTIZATION EXPENSES:			
Avista Utilities	$ 62,981	$ 59,538	$ 57,915
Energy Trading and Marketing	3,692	596	136
Information and Technology	2,340	653	350
Pentzer and Other	7,461	9,760	11,492
Total depreciation and amortization expenses	$ 76,474	$ 70,547	$ 69,893
INCOME/(LOSS) FROM OPERATIONS (PRE-TAX):			
Avista Utilities	$ 142,567	$ 143,153	$ 178,358
Energy Trading and Marketing	(97,785)	22,826	6,577
Information and Technology	(13,002)	(5,192)	(5,364)
Pentzer and Other	(423)	12,033	9,962
Intersegment eliminations	--	--	(69)
Total income from operations	$ 31,357	$ 172,820	$ 189,464

	1999	1998	1997
INCOME AVAILABLE FOR COMMON STOCK:			
Avista Utilities	$ 38,078	$ 47,898	$ 95,385
Energy Trading and Marketing	(60,740)	14,116	5,346
Information and Technology	(10,156)	(3,398)	(3,425)
Pentzer and Other	37,457	11,124	12,099
Total income available for common stock	$ 4,639	$ 69,740	$ 109,405
ASSETS:			
Avista Utilities	$ 1,976,716	$ 2,004,935	$ 1,926,739
Energy Trading and Marketing	1,595,470	955,615	212,868
Information and Technology	26,379	7,461	3,475
Pentzer and Other	114,929	285,625	268,703
Total assets	$ 3,713,494	$ 3,253,636	$ 2,411,785
CAPITAL EXPENDITURES (excluding AFUDC/AFUCE):			
Avista Utilities	$ 86,256	$ 92,295	$ 87,175
Energy Trading and Marketing	3,676	2,357	3,222
Information and Technology	15,506	4,120	2,047
Pentzer and Other	10,171	7,498	6,738
Total capital expenditures	$ 115,609	$ 106,270	$ 99,182

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Regulatory, economic and technological changes have brought about the accelerating transformation of the utility and energy industries, creating new opportunities to expand the Company's businesses and serve new markets. In pursuing such opportunities, the Company's strategy is to focus on continuing its growth as a leading provider of energy, and information and technology services.

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

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

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

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

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

BUSINESS SEGMENTS
The Company changed the way it reports business segments in this Form 10-K from the 1998 Form 10-K and has restated prior periods to reflect this change. In the 1998 Form 10-K and the quarterly Form 10-Q reports for 1999, the Company reported Avista Utilities information by its two separate lines of business - (1) Energy Delivery and (2) Generation and Resources. The National Energy Trading and Marketing line of business included results of Avista Energy, Avista Advantage and Avista Power. The Non-Energy line of business included Pentzer and all of the remaining subsidiaries' activities. The business segment presentation in this Form 10-K reflects the basis currently used by the Company's management to analyze performance and determine the allocation of resources. Avista Utilities' business is now managed based on the total regulated operations, not by individual segments. The Energy Trading and Marketing line of business changed its focus from a national emphasis to a regional effort, but its operations are non-regulated, as opposed to Avista Utilities' operations. The Information and Technology line of business reflects the current efforts of the Company to grow those businesses and focus on generating shareholder value. Pentzer and Other reports on the other non-utility operations of various subsidiaries.

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

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

RESEARCH AND DEVELOPMENT EXPENSES
Company-sponsored research and development expenses related to present and future products are expensed as incurred. The majority of the Company's research and development expenses are related to subsidiary businesses. Research and development expenses totaled approximately $3.3 million, $1.0 million and $1.0 million in 1999, 1998 and 1997, respectively.

OTHER INCOME (DEDUCTIONS)--NET
Other income (deductions)-net is composed of the following items:

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	(Thousands of Dollars)		
Interest income	$ 3,615	$ 9,560	$ 6,392
Capitalized interest (debt)	1,001	1,592	1,549
Gain (loss) on property dispositions	4,071	12	(1,222)
Minority interest	2,002	296	(574)
Capitalized interest (equity)	1,040	1,283	1,323
Other	7,230	(2,949)	(13,341)
Total	$18,959	$ 9,794	$ (5,873)

EARNINGS PER SHARE
Financial Accounting Standard (FAS) No. 128, "Earnings Per Share," became effective in the fourth quarter of 1997 and requires two presentations of earnings per share - "basic" and "diluted." Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive securities, such as stock options and convertible stock, were exercised or converted into common stock that then shared in the earnings of the Company. See Note 19 for specific information about the Company's EPS calculations.

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

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

The effective AFUDC rate was 10.67% in 1999, 1998 and 1997. The Company's AFUDC rates do not exceed the maximum allowable rates as determined in accordance with the requirements of regulatory authorities.

DEPRECIATION
For utility operations, depreciation provisions are estimated by a method of depreciation accounting utilizing unit rates for hydroelectric plants and composite rates for other properties. Such rates are designed to provide for

retirements of properties at the expiration of their service lives. The rates for hydroelectric plants include annuity and interest components, in which the interest component is 6%. For utility operations, the ratio of depreciation provisions to average depreciable property was 2.69% in 1999, 2.60% in 1998 and 2.59% in 1997.

The average service lives and remaining average service lives, respectively, for the following broad categories of property are: electric thermal production - 35 and 17 years; hydroelectric production - 100 and 79 years; electric transmission - - 60 and 28 years; electric distribution - 40 and 31 years; and natural gas distribution property - 44 and 30 years.

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

TEMPORARY INVESTMENTS
Investments in debt and marketable equity securities are classified as "available for sale" and are recorded at fair value. Investments totaling $1.8 million and $7.5 million are included on the Consolidated Balance Sheets at December 31, 1999 as other property and investments and current assets, respectively. Investments totaling $4.3 million and $5.8 million are included on the Consolidated Balance Sheets at December 31, 1998 as other property and investments and current assets, respectively. Unrealized investment gains, as of December 31, 1999 and 1998, of $(0.2) million and $0.02 million, respectively, net of taxes, are reflected as a component of other comprehensive income on the Consolidated Statements of Capitalization.

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

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

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

DEFERRED REVENUES
In December 1998, the Company received cash proceeds of $143.4 million from the monetization of a contract in which the Company assigned and transferred certain rights under a long-term power sales contract to a funding trust. The proceeds were recorded as deferred revenue and are being amortized into revenues over the 16-year period of the long-term sales contract. The balance at December 31, 1999 was $133.0 million.

POWER AND NATURAL GAS COST ADJUSTMENT PROVISIONS
The Company has a power cost adjustment mechanism (PCA) in Idaho which allows the Company to modify electric rates to recover or rebate a portion of the difference between actual and allowed net power supply costs. The PCA

tracks changes in hydroelectric generation, secondary prices, related changes in thermal generation and Public Utility Regulatory Policies Act of 1978 (PURPA) contracts. Rate changes are triggered when the deferred balance reaches $2.2 million. The following surcharges and rebates were in effect during the past three years: a $2.8 million (2.5%) rebate effective August 1, 1999 scheduled to expire July 31, 2000; a $3.1 million (2.7%) rebate effective February 1, 1999, which expired January 31, 2000; a $2.7 million (2.4%) rebate effective June 1, 1998, which expired May 31, 1999; a $2.6 million (2.3%) rebate effective September 1, 1997, which expired August 31, 1998; a $2.6 million (2.4%) rebate effective June 1, 1997, which expired May 31, 1998; and a $2.5 million (2.3%) rebate effective September 1, 1996, which expired August 31, 1997. The rebate balances and the deferred balance are included in the Current Liabilities - Other and Non-Current Liabilities and Deferred Credits - Other Deferred Credits lines, respectively, on the Consolidated Balance Sheets.

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

INCOME TAXES

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

STOCK-BASED COMPENSATION

Compensation cost for stock options is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Restricted stock is recorded as compensation cost over the requisite vesting periods based on the market value on the date of grant. The Company accounts for its stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" rather than using the fair-value-based method of accounting for stock-based employee compensation plans as prescribed under FAS No. 123, "Accounting for Stock-Based Compensation." However, the Company has adopted the disclosure requirements of FAS No. 123. See Note 21 for more information about the Company's stock-based compensation plans.

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

	Unrealized Investment Gain/(Loss)	Foreign Currency Translation Adjustment	Comprehensive Income
Balance at January 1, 1997	$ 5,704	$	$ 5,704
Unrealized investment gain/(loss), net of tax of $810	1,504		1,504
Less: reclassification adjustment, net of tax of $2,762	(5,131)		(5,131)
Balance at December 31, 1997	2,077		2,077
Unrealized investment gain/(loss), net of tax of $1,105	(2,052)		(2,052)
Foreign currency translation adjustment		(366)	(366)
Balance at December 31, 1998	25	(366)	(341)
Unrealized investment gain/(loss), net of tax of $108	(201)		(201)
Foreign currency translation adjustment		376	376
Balance at December 31, 1999	$ (176)	$ 10	$ (166)

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

NEW ACCOUNTING STANDARDS
The FASB issued FAS No. 133, entitled "Accounting for Derivative Instruments and Hedging Activities" which is effective for fiscal years beginning after June 15, 2000. The statement requires that all derivative financial instruments be recognized as either assets or liabilities on a company's balance sheets at fair value. The accounting for changes in the fair value of a derivative will depend on the intended use of the derivative and the resulting designation. Avista Energy currently accounts for derivative commodity instruments entered into for trading purposes using the mark-to-market method of accounting, in compliance with EITF 98-10, "Accounting for Energy Trading and Risk Management Activities." The Company is in the process of determining the impact of the statement on the Company's financial position and results of operations, and developing systems for ongoing monitoring and measurement.

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

NOTE 2. ASSET IMPAIRMENT AND RESTRUCTURING CHARGES

In November 1999, Avista Corp.'s Board of Directors authorized the reduction of Avista Energy's risk by redirecting its focus away from national energy trading toward a more regionally-based energy marketing and trading effort in the West. The downsizing plans call for shutting down all of the operations in Houston and Boston, which will eliminate approximately 80 positions, during the first three to six months of 2000. In the fourth quarter of 1999, Avista Energy recorded a pre-tax charge of $42.9 million for expenses related to this restructuring of Avista

Energy's business. The after-tax effect of these charges was $27.3 million, or $0.71 per basic common share. The charge included $21.4 million, after taxes, for the write-off of goodwill associated with the purchase of Vitol earlier in 1999 and $5.9 million, after taxes, for expenses related to employee terminations, such as contract terminations and retention payments. None of the $5.9 million for termination benefits was paid out as of December 31, 1999. Avista Energy sought a buyer for the Eastern book of business, and is currently in the process of closing that transaction. The electric contracts will likely be sold at approximately book value. To date, Avista Energy has not found a buyer for the natural gas or coal contracts.

NOTE 3. ACCOUNTS RECEIVABLE SALE

In July 1997, WWP Receivables Corp. (WWPRC) was incorporated as a wholly owned, bankruptcy-remote subsidiary of the Company for the purpose of acquiring or purchasing interests in certain accounts receivable, both billed and unbilled, of the Company. Subsequently, WWPRC and the Company have entered into an agreement whereby WWPRC can sell without recourse, on a revolving basis, up to $80.0 million of those receivables. WWPRC is obligated to pay fees that approximate the purchaser's cost of issuing commercial paper equal in value to the interests in receivables sold. On a consolidated basis, the amount of such fees is included in operating expenses of the Company. At December 31, 1999 and 1998, $45.0 million and $25.0 million, respectively, in receivables had been sold pursuant to the agreement, which qualify as sales of assets under FAS No. 125.

NOTE 4. ENERGY COMMODITY TRADING

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

AVISTA UTILITIES

Avista Utilities protects itself against price fluctuations on electric energy and natural gas by limiting the aggregate level of net open positions which are exposed to market price changes and through the use of electric, natural gas and related derivative commodity instruments for hedging purposes. The net open position is actively managed with strict policies designed to limit the exposure to market risk and which require daily and weekly reporting to management of potential financial exposure. The Risk Management Committee has limited the types of commodity instruments Avista Utilities may trade to those related to electricity and natural gas commodities and those instruments are to be used for hedging price fluctuations associated with the management of resources. Commodity instruments are not generally held by Avista Utilities for speculative trading purposes. Gains and losses related to derivative commodity instruments which qualify as hedges are recognized in the Consolidated Statements of Income when the underlying hedged physical transaction closes (the deferral method) and are included in the same category as the hedged item (natural gas purchased or purchased power expense, as the case may be). At December 31, 1999 and 1998, the Company's derivative commodity instruments outstanding were immaterial.

ENERGY TRADING AND MARKETING

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

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

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

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

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

Contract Amounts and Terms. Under Avista Energy's derivative instruments, Avista Energy either (i) as "fixed price payor," is obligated to pay a fixed price or amount and is entitled to receive the commodity (or currency) or a fixed amount or (ii) as "fixed price receiver," is entitled to receive a fixed price or amount and is obligated to deliver the commodity (or currency) or pay a fixed amount or (iii) as "index price payor," is obligated to pay an indexed price or amount and is entitled to receive the commodity or a variable amount or (iv) as "index price receiver," is entitled to receive an indexed price or amount and is obligated to deliver the commodity or pay a variable amount. The contract or notional amounts and terms of Avista Energy's derivative commodity investments outstanding at December 31, 1999 are set forth below (volumes in thousands of mmBTUs and MWhs, dollars in thousands):

	Fixed Price Payor	Fixed Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	352,021	337,056	4
Electric	202,793	189,630	20
Coal (tons)	5,276	6,364	1
Financial products			
Foreign currency	$426	$--	4

	Index Price Payor	Index Price Receiver	Maximum Terms in Years
Energy commodities (volumes)			
Natural gas	979,652	819,660	5
Electric	1,581	1,365	5

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

Fair Value. The fair value of Avista Energy's derivative commodity instruments outstanding at December 31, 1999, and the average fair value of those instruments held during the year are set forth below (dollars in thousands):

	Fair Value as of December 31, 1999				Average Fair Value for the year ended December 31, 1999			
	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities
Natural gas	$ 75,422	$ 29,496	$ 77,181	$ 23,795	$107,333	$ 65,884	$110,635	$ 57,978
Electric	499,963	461,501	507,518	417,450	347,979	297,937	347,651	266,618
Coal	10,528	802	9,366	127	5,264	401	4,683	64
Total	$585,913	$491,799	$594,065	$441,372	$460,576	$364,222	$462,969	$324,660

The weighted average term of Avista Energy's natural gas and related derivative commodity instruments as of December 31, 1999 was approximately three months. The weighted average term of Avista Energy's electric derivative commodity instruments at December 31, 1999 was approximately four months. The weighted average term of Avista Energy's coal derivative commodity instruments at December 31, 1999 was approximately eight months. The change in the fair value position of Avista Energy's energy commodity portfolio, net of the reserves for credit and market risk for the year ended December 31, 1999 was $0.2 million and is included on the Consolidated Statements of Income in operating revenues.

MARKET RISK

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

CREDIT RISK

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

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

NOTE 5. ENERGY TRADING AND MARKETING EQUITY INVESTMENT

Effective November 30, 1998, Avista Energy sold its 50% ownership interest in Howard/Avista Energy LLC to H&H Star Energy, Inc. for $25 million. Avista Energy's initial equity investment in Howard/Avista Energy, LLC was $25 million in August 1997. Dividends of $0.7 million were received from Howard/Avista Energy, LLC in 1998. Avista Energy's pre-tax equity in earnings of Howard/Avista Energy LLC were $(1.0) million and $1.8 million for the eleven months ended November 30, 1998 and the five months ended December 31, 1997, respectively.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	AT DECEMBER 31,	
	1999	1998
Avista Utilities:		
Electric production	$ 720,409	$ 709,144
Electric transmission	272,299	265,343
Electric distribution	622,974	593,787
CWIP and other	85,648	81,435
Electric total	1,701,330	1,649,709
Natural gas underground storage	18,418	18,732
Natural gas transmission	3,194	3,217
Natural gas distribution	372,208	352,332
CWIP and other	49,259	47,499
Natural gas total	443,079	421,780
Common plant (including CWIP)	71,201	69,203
Total Avista Utilities	2,215,610	2,140,692
Energy Trading and Marketing	8,304	5,579
Information and Technology	21,613	6,403
Pentzer and Other	24,027	33,071
Total	$2,269,554	$2,185,745

Property, plant, and equipment under capital leases at Avista Capital's subsidiaries totaled $11.1 million and $13.3 million and the associated accumulated depreciation totaled $3.8 million and $2.8 million in 1999 and 1998, respectively.

NOTE 7. JOINTLY OWNED ELECTRIC FACILITIES

The Company has investments in jointly owned generating plants. The Company provides financing for the Company's ownership in the projects. The Company's share of related operating and maintenance expenses for plants in service is included in corresponding accounts in the Consolidated Statements of Income. See Note 22 for additional information related to potential impacts of Clean Air Act Amendments on these plants. The following table indicates the Company's percentage ownership and the extent of the Company's investment in such plants at December 31, 1999:

			COMPANY'S CURRENT SHARE OF				
Project	KW of Installed Capacity	Fuel Source	Ownership (%)	Plant in Service	Accumulated Depreciation	Net Plant In Service	Construction Work in Progress
			(Thousands of Dollars)				
Centralia *.....	1,330,000	Coal	15%	$ 57,898	$ 40,391	$ 17,507	$ --
Colstrip 3 & 4.....	1,556,000	Coal	15	310,804	131,328	179,476	--

* The Company purchased an additional 2.5% interest in Centralia in December 1999, which is currently being held as non-utility property until the outcome of the pending sale of Centralia is determined.

NOTE 8. PENSION PLANS AND OTHER POSTRETIREMENT BENEFIT PLANS

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

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

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

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
	(Thousands of Dollars)			
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	$ 178,589	$ 155,565	$ 32,345	$ 31,802
Service cost	5,951	4,982	696	585
Interest cost	11,915	11,247	2,178	2,100
Amendments	(6,463)	5,454	--	--
Actuarial (gain)/loss	(14,679)	10,088	(2,377)	108
Benefits paid	(12,109)	(8,747)	(2,205)	(2,250)
Expenses paid	(1,107)	--	--	--
Benefit obligation at end of year	$ 162,097	$ 178,589	$ 30,637	$ 32,345
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	$ 178,879	$ 166,242	$ 12,459	$ 11,098
Actual return on plan assets	19,902	21,384	3,228	1,374
Employer contributions	--	--	809	731
Benefits paid	(12,109)	(8,747)	(688)	(744)
Expenses paid	(1,107)	--	--	--
Fair value of plan assets at end of year	$ 185,565	$ 178,879	$ 15,808	$ 12,459
Funded status	$ 23,467	$ 289	$(14,829)	$(19,886)
Unrecognized net actuarial gain	(38,667)	(19,767)	(9,997)	(5,626)
Unrecognized prior service cost	11,651	19,455	--	--
Unrecognized net transition obligation/(asset)	(5,929)	(7,015)	19,933	21,467
Accrued benefit cost	$ (9,478)	$ (7,038)	$ (4,893)	$ (4,045)
ASSUMPTIONS AS OF DECEMBER 31				
Discount rate	7.75%	6.75%	7.75%	6.75%
Expected return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%		
Medical cost trend - initial			5.00%	5.00%
Medical cost trend - ultimate			5.00%	5.00%
Year for ultimate medical cost trend			1999	1998

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
	(Thousands of Dollars)					
COMPONENTS OF NET PERIODIC BENEFIT COST						
Service cost	$ 5,951	$ 4,982	$ 4,762	$ 696	$ 585	$ 637
Interest cost	11,915	11,247	10,601	2,178	2,100	2,247
Expected return on plan assets	(15,681)	(14,768)	(13,152)	(1,075)	(953)	(973)
Transition (asset)/obligation recognition	(1,086)	(1,086)	(1,086)	1,534	1,533	1,570
Amortization of prior service cost	1,341	1,654	1,365	--	--	13
Net gain recognition	--	(562)	(265)	(159)	(326)	(248)
Asset gain deferred	--	--	--	--	--	336
Net periodic benefit cost	$ 2,440	$ 1,467	$ 2,225	$ 3,174	$ 2,939	$ 3,582

Assumed health cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point increase in the assumed health care cost trend rate for each year would increase the accumulated postretirement benefit obligation as of December 31, 1999 by approximately $2.4 million and the service and interest cost by approximately $273,000. A one-percentage-point decrease in the assumed health care cost trend rate for each year would decrease the accumulated postretirement benefit obligation as of December 31, 1999 by approximately $2.2 million and the service and interest cost by approximately $246,000.

The Company also sponsors an employee savings plan that covers substantially all employees. Employer matching contributions of $3.4 million, $2.8 million, $2.9 million were expensed in 1999, 1998 and 1997, respectively.

NOTE 9. ACCOUNTING FOR INCOME TAXES

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

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

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

As of December 31, 1999 and 1998, the Company had recorded net regulatory assets of $166.5 million and $171.0 million, respectively, related to the probable recovery of FAS No. 109, "Accounting for Income Taxes," deferred tax liabilities from customers through future rates. Such regulatory assets will be adjusted by amounts recovered through rates.

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

	1999	1998
Deferred tax liabilities:		
Differences between book and tax bases of utility plant	$383,729	$375,881
Loss on reacquired debt	5,357	4,979
Other	19,774	7,462
Total deferred tax liabilities	408,860	388,322
Deferred tax assets:		
Reserves not currently deductible	10,747	11,727
Contributions in aid of construction	7,878	7,159
Centralia Trust	2,897	2,325
Gain on sale of office building	1,098	1,190
Other	9,191	8,219
Total deferred tax assets	31,811	30,620
Net deferred tax liability	$377,049	$357,702

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

	FOR THE YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	(Thousands of Dollars)		
Computed federal income taxes at statutory rate ..	$ 14,970	$ 42,516	$ 61,555
Increase (decrease) in tax resulting from:			
Accelerated tax depreciation	1,869	1,431	2,589
Prior year audit adjustments	(1,642)	(1,526)	(31,458)
Reserve for WNP3	--	--	10,402
Other	3,687	(2,343)	13,922
Total federal income tax expense*	$ 18,884	$ 40,078	$ 57,010
INCOME TAX EXPENSE CONSISTS OF THE FOLLOWING:			
Federal taxes currently provided	$ 6,974	$ 20,094	$ 51,104
Deferred income taxes	11,910	19,984	5,906
Total federal income tax expense	18,884	40,078	57,010
State income tax expense	(2,144)	3,257	4,065
Federal and state income taxes	$ 16,740	$ 43,335	$ 61,075
*Federal Income Tax Expense:			
Utility	$ 34,757	$ 28,582	$ 50,409
Energy Trading and Marketing	(32,680)	7,789	2,954
Information and Technology	(3,383)	(2,010)	(1,928)
Pentzer and Other	20,190	5,717	5,575
Total Federal Income Tax Expense	$ 18,884	$ 40,078	$ 57,010
Federal statutory rate	35%	35%	35%

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

Under fixed contracts with Public Utility Districts (PUD), the Company has agreed to purchase portions of the output of certain generating facilities. Although the Company has no investment in such facilities, these contracts provide that the Company pay certain minimum amounts (which are based at least in part on the debt service requirements of the supplier) whether or not the facility is operating. The cost of power obtained under the contracts, including payments made when a facility is not operating, is included in operations and maintenance expense in the Consolidated Statements of Income. Information as of December 31, 1999, pertaining to these contracts is summarized in the following table:

	COMPANY'S CURRENT SHARE OF					
	Output	Kilowatt Capability	Annual Costs(1)	Debt Service Costs(2)	Revenue Bonds Outstanding	Contract Expiration Date
			(Thousands of Dollars)			
PUD CONTRACTS:						
Chelan County PUD:						
Rocky Reach Project	2.9%	37,000	$ 1,417	$ 692	$ 7,017	2011
Grant County PUD:						
Priest Rapids Project ..	6.1	55,000	1,539	830	10,317	2005
Wanapum Project	8.2	75,000	2,557	1,582	15,274	2009
Douglas County PUD:						
Wells Project	3.7	30,000	903	591	6,767	2018
Totals		197,000	$ 6,416	$ 3,695	$39,375	

(1) The annual costs will change in proportion to the percentage of output allocated to the Company in a particular year. Amounts represent the operating costs for the year 1999.

(2) Included in annual costs.

Actual expenses for payments made under the above contracts for the years 1999, 1998 and 1997, were $6.4 million, $6.2 million and $5.9 million, respectively. The estimated aggregate amounts of required minimum payments (the Company's share of debt service costs) under the above contracts for the next five years are $3.9 million in 2000 and $4.0 million in each year of 2001 through 2004 (minimum payments thereafter are dependent on then market conditions). In addition, the Company will be required to pay its proportionate share of the variable operating expenses of these projects.

NOTE 11. LONG-TERM DEBT

The annual sinking fund requirements and maturities for the next five years for long-term debt outstanding at December 31, 1999 are as follows:

YEAR ENDING DECEMBER 31	MATURITIES	SINKING FUND REQUIREMENTS	TOTAL
	(Thousands of Dollars)		
2000.....	$44,900	$2,844	$47,744
2001.....	40,000	2,395	42,395
2002.....	50,000	2,245	52,245
2003.....	30,000	1,845	31,845
2004.....	30,000	1,695	31,695

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

In September 1999, $83.7 million of Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project), Series 1999A due 2032 and Series 1999B due 2034 were issued by the City of Forsyth, Montana. The proceeds of the bonds were used to refund the $66.7 million of 7 1/8% First Mortgage Bonds due 2013 and the $17.0 million of 7 2/5% First Mortgage Bonds due 2016. The Series 1999A and Series 1999B Bonds are backed by an insurance policy issued by AMBAC Assurance Corporation and bear interest on a floating rate basis that is reset periodically. The initial interest rate until February 2000 was 3.6% and is currently 3.75%.

In 1999, $25.0 million of Unsecured Medium-Term Notes (MTNs) were issued, while $98.1 million of Secured MTNs and $26.5 million of Unsecured MTNs matured or were redeemed. In 1998, $84.0 million of Unsecured MTNs were issued, while $14.0 million of Unsecured MTNs matured or were redeemed. In August 1999, the

Company completed the documentation to issue up to and including $400.0 million of Unsecured MTNs, Series D. As of December 31, 1999, the Company had remaining authorization to issue up to $541.0 million of Unsecured MTNs.

At December 31, 1999, the Company had $118.5 million in outstanding balances under borrowing arrangements and commercial paper, which are expected to be refinanced in 2000. See Note 12 for details of credit agreements.

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

	OUTSTANDING AT DECEMBER 31,	
	1999	1998
Notes payable	$ 9,598	$50,288
Capital lease obligations	6,457	7,176
Subsidiary total debt	16,055	57,464
Less: current portion	6,147	15,165
Subsidiary net long-term debt	$ 9,908	$42,299

NOTE 12. BANK BORROWINGS

At December 31, 1999, the Company maintained lines of credit with various banks under two separate credit agreements amounting to $260.0 million. The Company has one revolving line of credit, expiring June 27, 2000, which provides a total credit commitment of $135 million. The second revolving credit agreement, which expires on June 29, 2001, provides a total credit commitment of $125 million. The Company pays commitment fees of up to 0.11% per annum on the average daily unused portion of each credit agreement.

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

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

	YEARS ENDED DECEMBER 31,	
	1999	1998
	(Thousands of Dollars)	
BALANCE OUTSTANDING AT END OF PERIOD:		
Fixed-term loans	$33,500	$ --
Commercial paper	10,000	--
Revolving credit agreement	75,000	--
MAXIMUM BALANCE DURING PERIOD:		
Fixed-term loans	$93,500	$94,000
Commercial paper	10,000	--
Revolving credit agreement	75,000	51,000
AVERAGE DAILY BALANCE DURING PERIOD:		
Fixed-term loans	$29,110	$47,651
Commercial paper	2,604	--
Revolving credit agreement	23,767	21,340
AVERAGE ANNUAL INTEREST RATE DURING PERIOD:		
Fixed-term loans	5.48%	5.69%
Commercial paper	5.89	--
Revolving credit agreement	5.87	5.80

AVERAGE ANNUAL INTEREST RATE AT END OF PERIOD:		
Fixed-term loans	6.56%	--%
Commercial paper	6.70	--
Revolving credit agreement	6.71	--

Avista Energy and its subsidiary, Avista Energy Canada, Ltd., as co-borrowers, have a credit agreement with two commercial banks in the aggregate amount of $110 million, expiring May 31, 2000. The credit agreement may be terminated by the banks at any time and all extensions of credit under the agreement are payable upon demand, in either case at the banks' sole discretion. The agreement also provides, on an uncommitted basis, for the issuance of letters of credit to secure contractual obligations to counterparts. The facility is guaranteed by Avista Capital and is secured by substantially all of Avista Energy's assets. The maximum amount of credit extended by the banks for cash advances is $30 million, with availability of up to $110 million (less the amount of outstanding cash advances, if any) for the issuance of letters of credit. At December 31, 1999 and 1998, there were no cash advances (demand notes payable) outstanding. Letters of credit outstanding under the facility totaled approximately $75.8 million and $20.2 million at December 31, 1999 and 1998, respectively.

Pentzer's operations have $27.5 million in short-term borrowing arrangements available. At December 31, 1999 and 1998, $2.5 million and $21.4 million, respectively, were outstanding.

NOTE 13. LEASES

The Company has entered into several lease arrangements involving various assets, with minimum terms ranging from one to thirteen years and expiration dates from 2000 to 2011. Certain of the lease arrangements require the Company, upon the occurrence of specified events, to purchase the leased assets for varying amounts over the term of the lease. The Company's management believes that the likelihood of the occurrence of the specified events under which the Company could be required to purchase the property is remote. Rent expense for the years ended December 31, 1999, 1998 and 1997 was $18.7 million, $17.6 million and $16.9 million, respectively. Future minimum lease payments (in thousands of dollars) required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1999 are estimated as follows:

Year ending December 31:	
2000	$ 4,366
2001	3,967
2002	3,654
2003	3,433
2004	3,255
Later years	19,063
Total minimum payments required	$ 37,738

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

The payments under the Avista Capital subsidiaries' capital leases for the next five years are $2.9 million in 2000, $1.9 million in 2001, $1.3 million in 2002, $0.7 million in 2003 and $0.4 million in 2004.

NOTE 14. PREFERRED STOCK

CUMULATIVE PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION:

In December 1998, as part of a dividend restructuring plan, the Company issued 1,540,460 shares of its $12.40 Convertible Preferred Stock, Series L (Series L Preferred Stock). During 1999, the Company repurchased the equivalent of 32,250 shares of the Series L Preferred Stock. See Note 15 for additional information.

CUMULATIVE PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION:

Redemption requirements:

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

There are $5.25 million in mandatory redemption requirements during the 2000-2004 period.

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

NOTE 15. CONVERTIBLE PREFERRED STOCK

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

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

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

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

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

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

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

NOTE 16. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED TRUST SECURITIES

On January 23, 1997, Avista Capital I, a business trust, issued to the public $60,000,000 of Preferred Trust Securities having a distribution rate of 7 7/8%. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,855,675 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's 7 7/8% Junior Subordinated Deferrable Interest Debentures, Series A, with a principal amount of $61,855,675. These debt securities may be redeemed at the Company's option on or after January 15, 2002 and mature January 15, 2037.

On June 3, 1997, Avista Capital II, a business trust, issued to the public $50,000,000 of Preferred Trust Securities having a floating distribution rate of LIBOR plus 0.875%, calculated and reset quarterly (initially 6.6875%). The distribution rate paid during 1999 ranged from 5.895% to 6.985%, which was the rate outstanding at December 31, 1999. Concurrent with the issuance of the Preferred Trust Securities, the Trust issued $1,547,000 of Common Trust Securities to the Company. The sole assets of the Trust are the Company's Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with a principal amount of $51,547,000. These debt securities may be redeemed at the Company's option on or after June 1, 2007 and mature June 1, 2037.

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

NOTE 17. FAIR VALUE OF FINANCIAL SECURITIES

The fair value of the Company's long-term debt (excluding notes payable and other) at December 31, 1999 and 1998 is estimated to be $545.8 million, or 93% of the carrying value and $735.5 million, or 107% of the carrying value, respectively. The fair value of the Company's mandatorily redeemable preferred stock at December 31, 1999 and 1998 is estimated to be $35.1 million, or 100% of the carrying value and $38.5 million, or 110% of the carrying value, respectively. The fair value of the Company's preferred trust securities at December 31, 1999 and 1998 is estimated to be $94.3 million, or 86% of the carrying value and $106.9 million, or 97% of the carrying value, respectively. These estimates are all based on available market information. The fair value of the Company's convertible preferred securities at December 31, 1999 and 1998 is estimated to be $230.0 million, or 87%, of the carrying value and $301.4 million, or 112%, of the carrying value, respectively. This valuation was based on the closing price of the securities on December 31, 1999.

NOTE 18. COMMON STOCK

In April 1990, the Company sold 1,000,000 shares of its common stock to the Trustee of the Investment and Employee Stock Ownership Plan for Employees of the Company (Plan) for the benefit of the participants and beneficiaries of the Plan. In payment for the shares of Common Stock, the Trustee issued a promissory note payable to the Company in the amount of $14,125,000. Dividends paid on the stock held by the Trustee, plus Company contributions to the Plan, if any, are used by the Trustee to make interest and principal payments on the promissory note. The balance of the promissory note receivable from the Trustee ($8.2 million at December 31, 1999) is reflected as a reduction to common equity. The shares of Common Stock are allocated to the accounts of participants in the Plan as the note is repaid. During 1999, the cost recorded for the Plan was $5.4 million. Interest on the note payable to the Company, cash and stock contributions to the Plan and dividends on the shares held by the Trustee were $0.8 million, $4.0 million and $0.4 million, respectively.

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

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

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

The Company purchases stock on the open market to fulfill obligations of the 401(K) and Dividend Reinvestment Plans. Sales of Common Stock for 1999, 1998 and 1997 are summarized below (thousands of dollars):

	1999		1998		1997	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1	40,453,729	$ 381,401	55,960,360	$ 594,852	55,960,360	$594,852
Exchange for preferred stock	--	--	(15,404,595)	(211,201)	--	--
Stock repurchase plan	(4,788,900)	(62,393)	--	--	--	--
Stock options/restricted stock	(16,590)	(277)	(102,036)	(2,250)	--	--
Total issues (exchanges/repurchases)	(4,805,490)	(62,670)	(15,506,631)	(213,451)	--	--
Balance at December 31	35,648,239	$ 318,731	40,453,729	$ 381,401	55,960,360	$594,852

NOTE 19. EARNINGS PER SHARE

Average common shares outstanding for basic EPS were 38,212,763, 54,603,926 and 55,960,360 in 1999, 1998 and 1997, respectively. At December 31, 1999 and 1998, 1,508,210 and 1,540,460 shares of $12.40 Convertible Preferred Stock, Series L, which were convertible into 15,082,100 and 15,404,595 million shares of common stock, respectively, were outstanding. All of these potential common shares were excluded from the computation of diluted EPS for 1999 and 1998 because their inclusion had an antidilutive effect on EPS. Basic and diluted EPS were the same in 1997, as the Company did not have any common stock equivalents outstanding that year.

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

	1999	1998	1997
Net income	$26,031	$78,139	$114,797
Less: Preferred stock dividends	21,392	8,399	5,392
Income available for common stock-basic	4,639	69,740	109,405
Convertible Preferred Stock, Series L, dividend requirements	--	--	--
Income available for common stock-diluted	$ 4,639	$69,740	$109,405
Weighted-average number of common shares outstanding-basic	38,213	54,604	55,960
Conversion of Convertible Preferred Stock, Series L	--	--	--
Restricted stock	112	--	--
Exercise of stock options	--	54	--
Weighted-average number of common shares outstanding-diluted	38,325	54,658	55,960
Earnings per common share			
Basic	$ 0.12	$ 1.28	$ 1.96
Diluted	$ 0.12	$ 1.28	$ 1.96

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

NOTE 20. INFORMATION AND TECHNOLOGY SEGMENT INFORMATION

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

	1999	1998	1997
AVISTA ADVANTAGE			
Operating Revenues	$ 1,518	$ 1,186	$ 618
Operating Income (pre-tax)	(5,042)	(2,904)	(4,386)
Net Income	$(3,428)	$(2,052)	$(2,858)
AVISTA LABS			
Operating Revenues	$ 748	$ 132	$ 174
Operating Income	(3,924)	(2,076)	(1,005)
Net Income	$(2,561)	$(1,169)	$ (597)
AVISTA COMMUNICATIONS			
Operating Revenues	$ 2,585	$ 677	$ 238
Operating Income	(4,036)	(212)	27
Net Income	$(4,167)	$ (177)	$ 30

NOTE 21. STOCK COMPENSATION PLANS

AVISTA CORP.

In 1998, the Company adopted and shareholders approved an incentive compensation plan, the Long-Term Incentive Plan (Plan). Under the Plan, certain key employees, directors and officers of the Company and its subsidiaries may be granted stock options, stock appreciation rights, stock awards (including restricted stock) and other stock-based awards and dividend equivalent rights. The Company has made available a maximum of 2.5 million shares of its common stock for grant under the Plan. The shares issued under the Plan will be purchased by the trustee on the open market.

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

	1999	1998
Number of shares under stock options:		
Outstanding at beginning of year	589,800	--
Granted	780,700	589,800
Canceled	(10,175)	--
Unexercised options outstanding at end of year	1,360,325	589,800
Exercisable options	147,200	--
Weighted average exercise price:		
Granted	$17.21	$20.14
Canceled	$18.63	$ --
Outstanding at end of year	$18.29	$20.14
Exercisable at end of year	$19.63	$ --
Weighted average fair value of options granted during the year	$ 5.02	$ 4.74
Principal assumptions used in applying the Black-Scholes model:		
Risk-free interest rate	5.57% - 6.33%	4.81% - 5.53%
Expected life, in years	7	7
Expected volatility	27.92%	22.19%
Expected dividend yield	3.11%	3.01%

Information with respect to stock options outstanding and stock options exercisable at December 31, 1999 is as follows:

Stock options outstanding	
Range of exercise prices	$16.66 - $22.62
Weighted average remaining contractual life, in years	9.33
Weighted average exercise price	$18.29
Stock options exercisable	
Range of exercise prices	$18.31 - $22.62
Number exercisable	147,200
Weighted average exercise price	$19.63

The Company granted 20,000 and 102,036 shares of restricted common stock under the Plan in 1999 and 1998, respectively. Plan participants are entitled to dividends and to vote their respective shares. The sale or transfer of restricted stock is prohibited during the vesting period except as specified in the award agreements. The value of restricted stock awards is established by the average market price on the date of grant. Restricted stock awarded in 1999 and 1998 have vesting periods from 4 to 5 years.

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

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

	1999	1998
Net income (in thousands):		
As reported	$ 26,030	$ 78,139
Pro forma	$ 24,636(2)	$ 76,891(2)
Basic EPS as reported	$ 0.12	$ 1.28
Proforma Basic EPS	$ 0.08	$ 1.25
Diluted EPS as Reported	$ 0.12	$ 1.28
Proforma Diluted EPS	$ 0.08	$ 1.25

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

AVISTA CAPITAL COMPANIES

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

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

NOTE 22. COMMITMENTS AND CONTINGENCIES

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

SPOKANE GAS PLANT

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

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

The DOE issued a Draft Agreed Order to the Company on January 17, 2000, and solicited public comment. The Draft Order will require the completion of an RI and the performance of a focused Feasibility Study (FS) at the site. The work to be performed under the proposed Order includes three major technical parts: completion of the RI; performance of a focused FS; and, implementation of an interim groundwater monitoring plan. Following this public comment opportunity, the Draft Agreed Order will be finalized, incorporating any appropriate modifications based on written comments received. Completion of the RI and focused FS work is anticipated within approximately four months from the date the Order is finalized.

EASTERN PACIFIC ENERGY

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

On December 4, 1998, Avista Advantage, Avista Energy and the Company jointly filed a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. On May 4, 1999, the Court granted the Company's and its affiliates' motion to dismiss the case and granted the plaintiff the opportunity to file and serve an Amended Complaint, which it did. The Company and its affiliates renewed their motion to dismiss and on October 22, 1999, the Court again granted the motion to dismiss, this time with prejudice. Plaintiff has appealed this adverse determination to the Ninth Circuit Court of Appeals.

THE POWER COMPANY OF AMERICA

On June 25, 1999, the trustee (Trustee) of the PCA Liquidating Trust (Trust), the successor of The Power Company of America, L.P. (PCA), demanded that Avista Energy pay the Trust approximately $22.4 million. Until June 1998, Avista Energy and PCA had entered into forward contracts for the purchase/sale of electric power. In early July 1998, PCA defaulted on its contract obligations with Avista Energy and numerous other counterparties. Accordingly, on July 6, 1998, Avista Energy suspended all business dealings with PCA. On August 17, 1998, an involuntary petition was filed against PCA in the U.S. Bankruptcy Court for the District of Connecticut, and on January 5, 1999, the Court approved a plan of reorganization and established the Trust. Avista Energy has filed a Proof of Claim for approximately $2.6 million, representing the net amount owing by PCA to Avista Energy for power delivered to or received from PCA prior to July 6, 1998.

The Trustee's primary claim is based on the allegation that Avista Energy wrongfully terminated the forward contracts on July 6, 1998, resulting in alleged damages to PCA of about $18.5 million, recoverable under contract and/or bankruptcy law, in connection with those contracts in which Avista Energy was the seller and PCA was the buyer. Avista Energy reached a settlement agreement with the Trustee, in full settlement of all claims of the Trustee and Avista Energy, in which Avista Energy agreed to pay the Trustee $850,000. On February 1, 2000, the Bankruptcy Court conducted a hearing, which approved the terms of the settlement. The Bankruptcy Court also approved the settlement reached between the Company and the Trustee, with respect to separate creditors' claims of Avista Corp. and offsetting demands of the Trustee. Under that settlement, all claims were effectively netted against each other, with no additional payment owing by the Company.

OTHER CONTINGENCIES

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

The Company must be in compliance with requirements under the Clean Air Act Amendments (CAAA) at both the Colstrip and Centralia thermal generating plants, in which the Company maintains an ownership interest. The anticipated share of costs at Colstrip are not expected to have a major economic impact on the Company, but estimates for limestone scrubbers at both units at Centralia are expected to be approximately $35 million, which have been included in the Company's projected capital expenditures. However, a proposed sale of Centralia to TransAlta, of Calgary, is pending. A decision on the sale is expected by mid-year. Obligations under the CAAA would be assumed by TransAlta if the sale is completed.

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

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

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

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

As of December 31, 1999, the Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represented approximately 51% of employees. The current agreement with the union local representing the majority of the bargaining unit employees expires on March 25, 2002. A local agreement in the South Lake Tahoe area, which represents 6 employees, expires on March 25, 2002.

NOTE 23. ACQUISITIONS AND DISPOSITIONS

During the first quarter of 1999, Pentzer Corporation (Pentzer) sold its Creative Solutions Group, a group of five portfolio companies that provide point-of-purchase displays and other merchandising and packaging services to retailers and consumer product companies. The sale resulted in a gain of $10.1 million, net of taxes. During the third quarter of 1999, Pentzer sold its Store Fixtures Group, a group of six portfolio companies that design, manufacture and deliver store fixture products to major retailers. The sale resulted in a gain of $27.6 million, net of taxes. During the first quarter of 1998, Pentzer sold Systran Financial Services, resulting in an after-tax gain of $5.5 million. In May 1997, Pentzer sold its interest in a portfolio company, Safety Speed Cut, resulting in a gain of approximately $2.0 million, net of taxes.

In November 1999, Pentzer purchased the International Retail Services Group, a company that provides backroom supplies for retail stores. In April 1998, Pentzer completed the purchase of two new companies that produce store fixtures - -- Universal Showcase, Ltd., in Toronto, Canada and Triangle Systems, Inc., in New York. In October 1998, Pentzer acquired two additional store fixtures companies -- Horizon Terra, Inc., in Indiana and Pacific Coast Showcase, Inc., in Washington. During 1997, Pentzer acquired three new companies: Target Woodworks, Inc., a Florida-based company; White Plus, a California-based company; and Proco Wood Products, a Minnesota-based company. All three companies provide point-of-purchase and in-store merchandising services.

In January 1999, Avista Corp. acquired a majority ownership in One Eighty Communications, a competitive local exchange carrier that provided local dial tone and data services to commercial accounts in local communities. The new company was renamed Avista Communications. It provides local high-speed telecommunications services to under-served Northwest communities.

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

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

NOTE 24. SELECTED QUARTERLY INFORMATION (UNAUDITED)

The Company's energy operations are significantly affected by weather conditions. Consequently, there can be large variances in revenues, expenses and net income between quarters based on seasonal factors such as temperatures and streamflow conditions. A summary of quarterly operations (in thousands of dollars except per share amounts) for 1999 and 1998 follows:

	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1999				
Operating revenues	$1,212,822	$1,411,736	$3,718,109	$1,562,317
Operating income	30,363	17,380	18,197	(34,583)
Net income	19,388	8,509	27,613	(29,479)
Income available for common stock	14,004	3,125	22,273	(34,763)
Outstanding common stock (000s):				
Weighted average	40,454	40,185	36,634	35,648
Actual	40,454	38,881	35,645	35,648
Earnings per share:				
Avista Utilities	$0.35	$0.39	$(0.13)	$0.39
Energy Trading and Marketing	(0.18)	(0.27)	0.02	(1.16)
Information and Technology	(0.03)	(0.04)	(0.06)	(0.14)
Pentzer and Other	0.21	--	0.78	(0.01)
Earnings per share, basic	$0.35	$0.08	$0.61	$(0.92)
Earnings per share, diluted	$0.34	$0.08	$0.52	$(0.92)
Dividends paid per common share	$0.12	$0.12	$0.12	$0.12
Trading price range per share:				
High	$19.563	$18.188	$18.063	$18.125
Low	$15.938	$14.625	$16.250	$15.000
1998				
Operating revenues	$571,678	$632,995	$1,434,055	$1,045,256
Operating income	56,633	41,942	24,303	49,942
Net income	32,232	15,643	8,707	21,557
Income available for common stock	31,408	14,855	8,099	15,378
Outstanding common stock (000s):				
Weighted average	55,960	55,960	55,960	50,669
Actual	55,960	55,960	55,960	40,454
Earnings per share:				
Avista Utilities	$0.40	$0.17	$0.10	$0.21
Energy Trading and Marketing	0.04	0.08	0.01	0.13
Information and Technology	(0.01)	(0.01)	(0.02)	(0.02)
Pentzer and Other	0.13	0.03	0.05	(0.01)
Earnings per share, basic and diluted	$0.56	$0.27	$0.14	$0.31
Dividends paid per common share	$0.31	$0.31	$0.31	$0.12
Trading price range per share:				
High	$24.813	$24.875	$22.813	$20.188
Low	$21.688	$20.813	$16.250	$17.500

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors of the Registrant has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 11, 2000.

Executive Officers of the Registrant

Name	Age	Business Experience During Past 5 Years
Thomas M. Matthews	56	Chairman of the Board, President and Chief Executive Officer since October 1998; Chairman of the Board and Chief Executive Officer July 1998 - October 1998; prior to employment with the Registrant: President - Dynegy 1996 - July 1998; Vice President - Texaco, Inc. 1994 - 1996.
Gary G. Ely	52	Executive Vice President since February 1999; Senior Vice President and General Manager August 1996 - February 1999; Vice President - Natural Gas February 1991- August 1996.
Jon E. Eliassen	53	Senior Vice President and Chief Financial Officer since November 1998; Senior Vice President, Chief Financial Officer and Treasurer December 1997 - November 1998; Senior Vice President and Chief Financial Officer August 1996 - December 1997; Vice President - Finance and Chief Financial Officer February 1986 - August 1996.
David J. Meyer	46	Senior Vice President and General Counsel since September 1998; prior to employment with the Registrant: Attorney - Paine Hamblen Coffin Brooke & Miller 1974 - September 1998.
David A. Brukardt	45	Vice President - Investor Relations since July 1999; prior to employment with the Registrant: Director - Investor and Corporate Relations - Harnischfeger Industries, Inc. and Vice President - Harnischfeger Foundation July 1995 - July 1999; Senior Vice President and Principal - CCU, Inc. May 1998 - July 1995.
Christy M. Burmeister-Smith	43	Vice President and Controller since June 1999; Controller - Energy Delivery and various other positions with the Company since 1980.
Robert D. Fukai	50	Vice President - External Relations since August 1996; Vice President - Human Resources, Corporate Services and Marketing January 1993 - August 1996.
JoAnn G. Matthiesen	59	Vice President - Human Resources and Support Services since May 1999; Vice President - Human Resources since August 1996; Vice President - Organization Effectiveness, Public Relations and Assistant to the Chairman January 1993 - August 1996.
Ronald R. Peterson	47	Vice President and Treasurer since November 1998; Vice President and Controller February 1998 - November 1998; Controller August 1996 - February 1998; Treasurer February 1992 - August 1996.
Terry L. Syms	51	Vice President and Corporate Secretary since February 1998; Corporate Secretary March 1988 - February 1998.

Edward H. Turner	44	Vice President and General Manager - Energy Delivery since November 1998; prior to employment with the Registrant: Director of Industrial Sales and various other positions - Houston Lighting & Power Company and Houston Industries Incorporated for 24 years.
Roger D. Woodworth	43	Vice President - Corporate Development since November 1998; Director of Corporate Development and various other positions with the Company since 1979.

All of the Company's executive officers, with the exception of Messrs. Brukardt, Fukai and Woodworth and Mmes. Burmeister-Smith and Matthiesen were officers or directors of one or more of the Company's subsidiaries in 1999.

Executive officers are elected annually by the Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 11, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

Information regarding security ownership of certain beneficial owners (owning 5% or more of Registrant's voting securities) has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 11, 2000.

(b) Security ownership of management:

Information regarding security ownership of management has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 11, 2000.

(c) Changes in control:

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions has been omitted pursuant to General Instruction G to Form 10-K. Reference is made to the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Registrant's annual meeting of shareholders to be held on May 11, 2000.

PART IV

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

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

Independent Auditors' Report

Consolidated Statements of Income, Comprehensive Income and Retained Earnings for the Years Ended December 31, 1999, 1998 and 1997

Consolidated Balance Sheets, December 31, 1999 and 1998

Consolidated Statements of Capitalization, December 31, 1999 and 1998

Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 1998 and 1997

Schedule of Information by Business Segments for the Years Ended December 31, 1999, 1998 and 1997

Notes to Financial Statements

(a) 2. Financial Statement Schedules:

None

(a) 3. Exhibits:

Reference is made to the Exhibit Index commencing on page 77. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K:

Dated January 6, 1999, regarding the Company's name change to Avista Corporation.

Dated June 15, 1999, regarding anticipated lower second quarter earnings.

Dated November 15, 1999, announcing the adoption of a shareholder rights plan to replace the plan that expired on February 16, 2000.

Dated December 2, 1999, announcing a redirection of Avista Energy's focus away from national energy trading toward a more regionally based energy marketing and trading effort backed by physical assets.

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

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

SIGNATURES

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

AVISTA CORPORATION

March 17, 2000 — Date

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

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

Signature	Title	Date
/s/ T. M. Matthews T. M. Matthews (Chairman of the Board, President and Chief Executive Officer)	Principal Executive Officer and Director	March 17, 2000
/s/ J. E. Eliassen J. E. Eliassen (Senior Vice President and Chief Financial Officer)	Principal Financial and Accounting Officer	March 17, 2000
/s/ David A. Clack David A. Clack	Director	March 17, 2000
/s/ Sarah M. R. Jewell Sarah M. R. Jewell	Director	March 17, 2000
/s/ John F. Kelly John F. Kelly	Director	March 17, 2000
/s/ Jessie J. Knight, Jr. Jessie J. Knight, Jr.	Director	March 17, 2000
/s/ Eugene W. Meyer Eugene W. Meyer	Director	March 17, 2000
/s/ Bobby Schmidt Bobby Schmidt	Director	March 17, 2000
/s/ Larry A. Stanley Larry A. Stanley	Director	March 17, 2000
/s/ R. John Taylor R. John Taylor	Director	March 17, 2000
/s/ Daniel J. Zaloudek Daniel J. Zaloudek	Director	March 17, 2000

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 2-81697, 2-94816, 33-54791, and 33-32148 on Form S-8, and in Registration Statement Nos. 33-53655, 333-39551, 333-82165, 333-16353, and 333-16353-03 on Form S-3 of our report dated February 4, 2000 (February 16, 2000 as to Note 15), appearing in this Annual Report on Form 10-K of Avista Corporation for the year ended December 31, 1999.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP

Seattle, Washington
March 17, 2000

EXHIBIT INDEX

Exhibit	Previously Filed* With Registration Number	As Exhibit	
3(a)	1-3701 (with 1998 Form 10-K)		Restated Articles of Incorporation of Avista Corporation as restated February 25, 1999.
3(b)	1-3701 (with 1999 2nd Quarter 10-Q)		Bylaws of Avista Corporation, as amended May 13, 1999.
4(a)-1	2-4077B-3		Mortgage and Deed of Trust, dated as of June 1, 1939.
4(a)-2	2-98124(c)		First Supplemental Indenture, dated as of October 1, 1952.
4(a)-3	2-60728	2(b)-2	Second Supplemental Indenture, dated as of May 1, 1953.
4(a)-4	2-13421	4(b)-3	Third Supplemental Indenture, dated as of December 1, 1955.
4(a)-5	2-13421	4(b)-4	Fourth Supplemental Indenture, dated as of March 15, 1967.
4(a)-6	2-60728	2(b)-5	Fifth Supplemental Indenture, dated as of July 1, 1957.
4(a)-7	2-60728	2(b)-6	Sixth Supplemental Indenture, dated as of January 1, 1958.
4(a)-8	2-60728	2(b)-7	Seventh Supplemental Indenture, dated as of August 1, 1958.
4(a)-9	2-60728	2(b)-8	Eighth Supplemental Indenture, dated as of January 1, 1959.
4(a)-10	2-60728	2(b)-9	Ninth Supplemental Indenture, dated as of January 1, 1960.
4(a)-11	2-60728	2(b)-10	Tenth Supplemental Indenture, dated as of April 1, 1964.
4(a)-12	2-60728	2(b)-11	Eleventh Supplemental Indenture, dated as of March 1, 1965.
4(a)-13	2-60728	2(b)-12	Twelfth Supplemental Indenture, dated as of May 1, 1966.
4(a)-14	2-60728	2(b)-13	Thirteenth Supplemental Indenture, dated as of August 1, 1966.
4(a)-15	2-60728	2(b)-14	Fourteenth Supplemental Indenture, dated as of April 1, 1970.
4(a)-16	2-60728	2(b)-15	Fifteenth Supplemental Indenture, dated as of May 1, 1973.
4(a)-17	2-60728	2(b)-16	Sixteenth Supplemental Indenture, dated as of February 1, 1975.
4(a)-18	2-60728	2(b)-17	Seventeenth Supplemental Indenture, dated as of November 1, 1976.
4(a)-19	2-69080	2(b)-18	Eighteenth Supplemental Indenture, dated as of June 1, 1980.
4(a)-20	1-3701 (with 1980 Form 10-K)	4(a)-20	Nineteenth Supplemental Indenture, dated as of January 1, 1981.
4(a)-21	2-79571	4(a)-21	Twentieth Supplemental Indenture, dated as of August 1, 1982.

*Incorporated herein by reference.
**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
4(a)-22	1-3701 (with Form 8-K dated September 20, 1983)	4(a)-22	Twenty-First Supplemental Indenture, dated as of September 1, 1983.
4(a)-23	2-94816	4(a)-23	Twenty-Second Supplemental Indenture, dated as of March 1, 1984.
4(a)-24	1-3701 (with 1986 Form 10-K)	4(a)-24	Twenty-Third Supplemental Indenture, dated as of December 1, 1986.
4(a)-25	1-3701 (with 1987 Form 10-K)	4(a)-25	Twenty-Fourth Supplemental Indenture, dated as of January 1, 1988.
4(a)-26	1-3701 (with 1989 Form 10-K)	4(a)-26	Twenty-Fifth Supplemental Indenture, dated as of October 1, 1989.
4(a)-27	33-51669	4(a)-27	Twenty-Sixth Supplemental Indenture, dated as of April 1, 1993.
4(a)-28	1-3701 (with 1993 Form 10-K)	4(a)-28	Twenty-Seventh Supplemental Indenture, dated as of January 1, 1994.
4(b)-1	**		Loan Agreement between City of Forsyth, Montana, and the Company, dated as of September 1, 1999 (Series 1999A).
4(b)-2	**		Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1999A) between City of Forsyth, Montana, and Chase Manhattan Bank and Trust Company, N.A., dated as of September 1, 1999.
4(b)-3	**		Loan Agreement between City of Forsyth, Montana, and the Company, dated as of September 1, 1999 (Series 1999B).
4(b)-4	**		Indenture of Trust, Pollution Control Revenue Refunding Bonds (Series 1999B) between City of Forsyth, Montana, and Chase Manhattan Bank and Trust Company, N.A., dated as of September 1, 1999.
4(c)-1	1-3701 (with 1988 Form 10-K)	4(h)-1	Indenture between the Company and Chemical Bank dated as of July 1, 1988 (Series A and B Medium-Term Notes).
4(d)-1	1-3701 (with 1998 Form 10-K)		Credit Agreement between the Company and Toronto Dominion (Texas), Bank of America National Trust and Savings Association and The Bank of New York with Toronto Dominion as the agent, dated June 30, 1998.
4(d)-2	**		Amended and Restated Credit Agreement between the Company and Toronto Dominion (Texas), Bank of America National Trust and Savings Association and The Bank of New York with Toronto Dominion as the agent, dated June 29, 1999.

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*Incorporated herein by reference.
**Filed herewith.

EXHIBIT INDEX (continued)

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

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*Incorporated herein by reference.
**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(g)-1	2-60728	5(k)	Ownership Agreement between the Company, Pacific Power & Light Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts as owners of the Centralia Steam Electric Generating Plant, dated as of May 15, 1969.
10(g)-2	1-3701 (with Form 10-K for 1991)	10(h)-3	Centralia Fuel Supply Agreement between PacifiCorp Electric Operations, as the Seller, and the Company, Puget Sound Power & Light Company, Portland General Electric Company, Seattle City Light, Tacoma City Light and Grays Harbor and Snohomish County Public Utility Districts, as the Buyers of coal for the Centralia Steam Electric Generating Plant, dated as of January 1, 1991.
10(h)-l	2-47373	13(y)	Agreement between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of January 6, 1973.
10(h)-2	2-60728	5(m)-1	Amendment No. 1 to the Agreement between the Company between the Company, Bonneville Power Administration and Washington Public Power Supply System for purchase and exchange of power from the Nuclear Project No. 1 (Hanford), dated as of May 8, 1974.
10(h)-3	1-3701 (with Form 10-K for 1986)	10(i)-3	Agreement between Bonneville Power Administration, the Montana Power Company, Pacific Power & Light, Portland General Electric, Puget Sound Power & Light, the Company and the Supply System for relocation costs of Nuclear Project No. 1 (Hanford) dated as of July 9, 1986.
10(i)-1	2-60728	5(n)	Ownership Agreement of Nuclear Project No. 3, sponsored by Washington Public Power Supply System, dated as of September 17, 1973.
10(i)-2	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	1	Settlement Agreement and Covenant Not to Sue executed by the United States Department of Energy acting by and through the Bonneville Power Administration and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation.
10(i)-3	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	2	Agreement to Dismiss Claims and Covenant Not to Sue between the Washington Public Power Supply System and the Company, dated as of September 17, 1985, describing the settlement of Project 3 litigation with the Supply System.

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*Incorporated herein by reference.
**Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	Previously Filed* As Exhibit	
10(i)-4	1-3701 (with Form 10-Q for quarter ended September 30, 1985)	3	Agreement among Puget Sound Power & Light Company, the Company, Portland General Electric Company and PacifiCorp, dba Pacific Power & Light Company, agreeing to execute contemporaneously an irrevocable offer, to and for the benefit of the Bonneville Power Administration, dated as of September 17, 1985.
10(j)-1	2-66184	5(r)	Service Agreement (Natural Gas Storage Service), dated as of August 27, 1979, between the Company and Northwest Pipeline Corporation.
10(j)-2	2-60728	5(s)	Service Agreement (Liquefaction-Storage Natural Gas Service), dated as of December 7, 1977, between the Company and Northwest Pipeline Corporation.
10(j)-3	1-3701 (with 1989 Form 10-K)	10(k)-4	Amendment dated as of January 1, 1990, to Firm Transportation Agreement, dated as of June 15, 1988, between the Company and Northwest Pipeline Corporation.
10(j)-4	1-3701 (with 1992 Form 10-K)	10(k)-6	Firm Transportation Service Agreement, dated as of April 25, 1991, between the Company and Pacific Gas Transmission Company.
10(j)-5	1-3701 (with 1992 Form 10-K)	10(k)-7	Service Agreement Applicable to Firm Transportation Service, dated June 12, 1991, between the Company and Alberta Natural Gas Company Ltd.
10(k)-1	1-3701 (with Form 8-K for August 1976)	13(b)	Letter of Intent for the Construction and Ownership of Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of April 16, 1974.
10(k)-2	1-3701 (with 1981 Form 10-K)	10(s)-7	Ownership and Operation Agreement for Colstrip Units No. 3 and 4, sponsored by The Montana Power Company, dated as of May 6, 1981.
10(k)-3	1-3701 (with 1981 Form 10-K)	10(s)-2	Coal Supply Agreement for Colstrip Units No. 3 and 4 between The Montana Power Company, Puget Sound Power & Light Company, Portland General Electric Company, Pacific Power & Light Company, Western Energy Company and the Company, dated as of July 2, 1980.
10(k)-4	1-3701 (with 1981 Form 10-K)	10(s)-3	Amendment No. 1 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of July 10, 1981.
10(k)-5	1-3701 (with 1988 Form 10-K)	10(l)-5	Amendment No. 4 to Coal Supply Agreement for Colstrip Units No. 3 and 4, dated as of January 1, 1988.
10(l)-1	1-3701 (with 1986 Form 10-K)	10(n)-2	Lease Agreement between the Company and IRE-4 New York, Inc., dated as of December 15, 1986, relating to the Company's central operating facility.

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* Incorporated herein by reference.
** Filed herewith.

EXHIBIT INDEX (continued)

Exhibit	Previously Filed* With Registration Number	As Exhibit	
10(m)	1-3701 (with 1983 Form 10-K)	10(v)	Supplemental Agreement No. 2, Skagit/Hanford Project, dated as of December 27, 1983, relating to the termination of the Skagit/Hanford Project.
10(n)	1-3701 (with 1986 Form 10-K)	10(p)-l	Agreement for Purchase and Sale of Firm Capacity and Energy between Puget Sound Power & Light Company and the Company, dated as of August 1, 1986.
10(o)	1-3701 (with 1991 Form 10-K)	10(q)-1	Electric Service and Purchase Agreement between Potlatch Corporation and the Company, dated as of January 3, 1991.
10(p)	1-3701 (with 1992 Form 10-K)	10(s)-1	Agreements for Purchase and Sale of Firm Capacity between the Company and Portland General Electric Company dated March and June 1992.
10(q)-1	1-3701 (with 1992 Form 10-K)	10(t)-8	Executive Deferral Plan of the Company. (***)
10(q)-2	1-3701 (with 1992 Form 10-K)	10(t)-10	The Company's Unfunded Supplemental Executive Retirement Plan. (***)
10(q)-3	1-3701 (with 1992 Form 10-K)	10(t)-11	The Company's Unfunded Supplemental Executive Disability Plan. (***)
10(q)-4	1-3701 (with 1992 Form 10-K)	10(t)-12	Income Continuation Plan of the Company. (***)
10(q)-5	1-3701 (with 1998 Form 10-K)		Long-Term Incentive Plan. (***)
10(q)-6	1-3701 (with 1998 Form 10-K)		Employment Agreement between the Company and T. M. Matthews. (***)
10(q)-7	**		Employment Agreement between the Company and David J. Meyer. (***)
12	**		Statement re computation of ratio of earnings to fixed charges and preferred dividend requirements.
21	**		Subsidiaries of Registrant.
27	**		Financial Data Schedule.

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

Exhibit 4(b)-1

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LOAN AGREEMENT

BETWEEN

CITY OF FORSYTH, MONTANA

AND

AVISTA CORPORATION

$66,700,000
CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999A

==========

The amounts payable to the Issuer and certain other rights of the Issuer under this Loan Agreement (except for amounts payable to, and certain rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 hereof and any rights of the Issuer to receive notices, certificates, requests, requisitions, directions and other communications hereunder) have been pledged and assigned to Chase Manhattan Bank and Trust Company, National Association, as Trustee under the Trust Indenture, dated as of September 1, 1999, from the Issuer. For the purpose of perfecting the security interest of such Trustee in such amounts payable and such rights assigned to such Trustee under the Montana Uniform Commercial Code -- Secured Transactions, the counterpart of this Loan Agreement actually delivered to the Trustee shall be deemed the original thereof.

==========

LOAN AGREEMENT

BETWEEN

CITY OF FORSYTH, MONTANA

AND

AVISTA CORPORATION

$66,700,000
CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999A

DATED AS OF SEPTEMBER 1, 1999

==========

The amounts payable to the Issuer and certain other rights of the Issuer under this Loan Agreement (except for amounts payable to, and certain rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 hereof and any rights of the Issuer to receive notices, certificates, requests, requisitions, directions and other communications hereunder) have been pledged and assigned to Chase Manhattan Bank and Trust Company, National Association, as Trustee under the Trust Indenture, dated as of September 1, 1999, from the Issuer. For the purpose of perfecting the security interest of such Trustee in such amounts payable and such rights assigned to such Trustee under the Montana Uniform Commercial Code -- Secured Transactions, the counterpart of this Loan Agreement actually delivered to the Trustee shall be deemed the original thereof.

This counterpart of the Loan Agreement has been actually delivered to the Trustee and the Trustee acknowledges receipt thereof.

CHASE MANHATTAN BANK AND TRUST COMPANY,
NATIONAL ASSOCIATION, as Trustee

By
Authorized Officer

TABLE OF CONTENTS

LOAN AGREEMENT

This LOAN AGREEMENT, dated as of September 1, 1999, is between the CITY OF FORSYTH, MONTANA, a political subdivision duly organized and existing under the Constitution and laws of the State (the "Issuer"), and AVISTA CORPORATION, a corporation duly organized under the laws of the State of Washington and duly qualified to conduct business in the State (the "Company").

RECITALS:

A. The Issuer is authorized by the provisions of the Act to issue one or more series of its revenue bonds to finance all or part of the cost of projects consisting of exempt facilities (as such term is used in the Code) located within the territorial limits of the Issuer.

B. The Act provides that payment of the principal of and interest on revenue bonds issued thereunder shall be secured by a pledge of the revenues out of which such revenue bonds shall be payable and may be secured by a pledge of an agreement relating to a project.

C. The Issuer has previously issued the Prior Bonds on behalf of the Company for the purpose of refinancing a portion of the costs of acquiring and improving the Project.

D. The Issuer is authorized by the Act to issue its revenue refunding bonds to refund the Prior Bonds.

E. By proper action of its governing body taken pursuant to and in accordance with the provisions of the Act, the Issuer has authorized and undertaken to issue its Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999A and the issuance of the Bonds to refund the Prior Bonds is authorized by the provisions of the Act.

F. The issuance of the Bonds to refund the Prior Bonds will provide financing on more advantageous terms for the cost of the Project financed by the Prior Bonds.

G. The Bonds shall be issued under and pursuant to the Trust Indenture, dated as of September 1, 1999, between the Issuer and Chase Manhattan Bank and Trust Company, National Association, as Trustee, pursuant to which the Issuer shall pledge and assign to the Trustee certain rights of the Issuer hereunder.

H. Pursuant to this Agreement, the Issuer will loan the proceeds of the Bonds to the Company to provide financing for the Project, and the Company agrees to make, or cause to be made, payments sufficient to pay when due (whether at stated maturity, by acceleration or otherwise) the principal of and premium, if any, and interest on the Bonds.

I. The Company agrees under this Agreement to pay, or cause to be paid, when due, the purchase price of Bonds purchased pursuant to the terms of the Indenture.

J. The issuance, sale and delivery of the Bonds and the execution and delivery of this Agreement and the Indenture have been in all respects duly and validly authorized in accordance with the Act and the Bond Resolution.

K. The Company and Ambac Assurance Corporation, a Wisconsin stock insurance company, as Provider of the Credit Facility, have agreed to enter into that certain Insurance Agreement, dated as of September 1, 1999, pursuant to which the Provider is to issue its Municipal Bond Insurance Policy to guarantee payment of the principal of the Bonds upon the stated maturity thereof, the redemption price of the Bonds upon certain mandatory redemption and interest on the Bonds as the same accrues and becomes due and payable.

In consideration of the respective representations and agreements contained in this Agreement, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

All words and terms used but not otherwise defined in this Agreement, shall for all purposes of this Agreement have the meanings specified in Article I of the Indenture, unless the context clearly requires otherwise. In addition, the following words and terms shall have the following meanings when used in this Agreement:

"Affiliate" means any entity controlling, controlled by or under common control with the Company.

"Indenture" means the Trust Indenture, dated as of September 1, 1999, between the Issuer and the Trustee, relating to the issuance of the Bonds as such Trust Indenture may be supplemented and amended from time to time as therein permitted.

The words "hereto," "hereunder" and other words of similar import refer to this Agreement as a whole.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS

SECTION 2.01. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF ISSUER. The Issuer represents, warrants and agrees that:

(a) The Issuer is a political subdivision of the State, duly organized and validly existing under the Constitution and laws of the State.

(b) Under the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and the Indenture and to carry out its obligations

hereunder and thereunder, including the issuance and sale of the Bonds. By proper action of its governing body, the Issuer has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture and to issue and sell the Bonds and has made all determinations and findings as and where required by Section 90-5-106 of the Act.

(c) The aggregate principal amount of the Bonds authorized to be issued under the Indenture for the purpose of refunding the Prior Bonds does not exceed the aggregate principal amount of the Prior Bonds now outstanding.

(d) The Prior Agreement and the Prior Indenture are each in full force and effect and have not been amended or supplemented.

(e) The proceeds of the sale of the Bonds (i) will be deposited with the Prior Trustee for deposit into the Prior Bond Fund to provide a portion of the moneys necessary for the Refunding and (ii) will be applied by the Prior Trustee to redeem the Prior Bonds pursuant to the Prior Indenture on the Redemption Date. The Prior Bonds are now outstanding in the principal amount of $66,700,000. Prior to the issuance and delivery of the Bonds, the Prior Trustee will be given irrevocable instructions and will be directed to call all of the Prior Bonds for redemption on the Redemption Date.

(f) The Bonds are to be issued under and secured by the Indenture, pursuant to which certain of the Issuer's right, title and interest in this Agreement and the revenues derived by the Issuer pursuant to this Agreement will be pledged and assigned to the Trustee as security for payment of the principal and purchase price of, premium, if any, and interest on the Bonds.

(g) Neither the execution and delivery of this Agreement or the Indenture, the issuance and sale of the Bonds, the consummation of the transactions contemplated hereby and thereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Tax Certificate, the Indenture or the Bonds conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Issuer is now a party or by which it is bound, or constitutes a default under any of the foregoing.

(h) The Issuer has not assigned or pledged and will not assign or pledge its interest in this Agreement other than to secure the Bonds.

(i) To the knowledge of the Issuer, after due inquiry, no litigation is pending or threatened against the Issuer to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture, this Agreement or the existence or powers of the Issuer or the right of the Issuer under the Act to refinance a portion of the costs of the Project through the issuance of the Bonds.

(j) To the knowledge of the Issuer, after due inquiry, no event has occurred and no condition exists which, upon the issuance of the Bonds, would constitute an event of default on the part of the Issuer under the Prior Indenture.

(k) The Issuer will not knowingly take or omit to take any action reasonably within its control the taking or omission of which would adversely affect the Tax-Exempt status of the Bonds. The Issuer will file or cause to be filed with the United States Department of Treasury the information required by Section 149(e) of the Code.

(l) A public hearing relating to the Refunding for the Project was held on May 4, 1999, following public notice thereof, pursuant to Section 147(f) of the Code, and the public hearing and approval requirements of Section 147(f) of the Code have been satisfied.

(m) Within the meaning of Sections 2-2-121 and 2-2-125, Montana Code Annotated, as amended, no "public officer," "public employee," "officer" or "employee" of the Issuer is engaged as counsel, consultant, representative, or agents of the Company, or has a substantial financial interest in the Company. None of the officers, deputies, or employees of the Issuer or employees having terminated their employment with the Issuer within the six months immediately preceding this Agreement are "interested in" this Agreement, the Indenture, the Bonds or the transactions contemplated thereby, within the meaning of Section 2-2-201, Montana Code Annotated, as amended.

Concurrently with the initial authentication and delivery of the Bonds under the Indenture, the Issuer shall execute and deliver a certificate reaffirming the foregoing representations, warranties and agreements as of the date thereof.

SECTION 2.02. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF COMPANY. The Company represents, warrants and agrees that:

(a) It is a corporation duly organized and validly existing under the laws of the State of Washington and duly qualified as a foreign corporation in good standing in the State, is not in violation of any provision of its Articles of Incorporation or its Bylaws, in each case as the same have been amended, has full corporate power to own its properties and conduct its business, and has the corporate power to enter into, and by proper corporate action has duly authorized the execution and delivery of, this Agreement and the Tax Certificate.

(b) Neither the execution and delivery of this Agreement or the Tax Certificate, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement or the Tax Certificate conflicts with or will result in a breach of any of the terms, conditions or provisions of any law or judgment to which the Company or its property or assets are subject or of any corporate restriction contained in its Articles of Incorporation or its Bylaws, in each case as the same have been amended, or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes, with or without the giving of notice or lapse of time or both, a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement.

(c) This Agreement has been duly and validly authorized, executed and delivered by the Company and is a legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, usury or other similar laws affecting the rights of creditors generally, equitable principles relating to the availability of remedies and principles of public or governmental policy limiting the enforceability of the indemnification and contribution provisions.

(d) Other than the orders of the Washington Utilities and Transportation Commission, the California Public Utilities Commission, the Idaho Public Utilities Commission and the Oregon Public Utility Commission and the approval by the Issuer, all of which orders and approvals will have been received and be in effect prior to the initial authentication and delivery of the Bonds, no consent, approval, authorization or order of, or registration with, any court or governmental or regulatory agency or body is required with respect to the Company for the execution, delivery and performance by the Company of this Agreement and the Tax Certificate.

(e) The Company has received an executed counterpart of the Indenture and hereby consents to and approves of the provisions thereof.

(f) The information relating to the Project furnished by the Company in writing to Chapman and Cutler, as Bond Counsel, in connection with the issuance by the Issuer of the Bonds, is, to the best of the Company's knowledge, true and correct.

(g) The Prior Agreement and the Prior Indenture are in full force and effect and have not been amended or supplemented.

(h) To the best knowledge of the Company, no event has occurred and is continuing under the provisions of the Prior Indenture that now constitutes, or with the lapse of time or the giving of notice, or both, would constitute, an event of default under the Prior Indenture.

(i) Upon the initial authentication and delivery of the Bonds, the Company has given or will give timely notice as required by the provisions of the Prior Agreement of the Company's intent to prepay the amounts payable thereunder to provide for the redemption of the Prior Bonds on the Redemption Date.

(j) The aggregate principal amount of Bonds authorized to be issued under the Indenture does not exceed the aggregate principal amount of the Prior Bonds now Outstanding.

(k) The Company does not, as of the date of issuance of the Bonds, reasonably expect any use of moneys derived from the proceeds of the Bonds or any investment or reinvestment thereof or from the sale of the Project which would cause the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code.

(l) All of the proceeds of the Prior Bonds, including the investment earnings thereon, have been disbursed in accordance with the provisions of the Prior Indenture and the Prior Agreement and there are no proceeds of the Prior Bonds, or investment earnings therefrom, or any other moneys being held by the Prior Trustee under the Prior Indenture.

(m) The Pollution Control Facilities that comprise the Project constitute Exempt Facilities and consist of those facilities described in Exhibit A hereto (as such Exhibit A is from time to time amended or supplemented in accordance with Section 3.04 hereof), and the Company shall not consent to any changes in the Project which would adversely affect the qualification of the Project as a "project" under the Act or adversely affect the Tax-Exempt status of the Bonds.

(n) Substantially all of the proceeds of the Prior Bonds have been expended for the purpose of acquiring, constructing and improving the Project, which constitutes Exempt Facilities. None of the proceeds of the Prior Bonds were used (i) to acquire land (or an interest therein) or (ii) to acquire any property (or an interest therein) unless the first use of such property was pursuant to such acquisition, all within the meaning of Section 147 of the Code.

(o) The Montana Department of Health and Environmental Sciences has certified that the pollution control facilities constituting part of the Project, as designed, are in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants, and water pollution, as the case may be.

(p) No construction, reconstruction or acquisition (within the meaning of the Code) of the Project was commenced prior to the taking of official action by the Issuer with respect thereto and the Project has been placed in service.

(q) The average maturity of the Bonds does not exceed 120% of the average reasonably expected economic life of the Project.

(r) All of the Prior Bonds will be redeemed within 90 days of the date of the initial authentication and delivery of the Bonds, and all of the proceeds of the sale of the Bonds will be spent within 90 days of the initial authentication and delivery of the Bonds.

(s) The Project (i) was designed to meet applicable federal, state and local requirements for the control of pollution or the disposal of solid waste, (ii) was and is to be used solely for purposes contemplated by the Act, and (iii) is located within the boundaries of Rosebud County, Montana.

(t) The representations, warranties and covenants of the Company set forth in the Project Certificate are incorporated herein by reference and are hereby made a part of this Agreement as if set forth herein.

(u) The Company will cooperate with the Issuer in filing or causing to be filed with the United States Department of Treasury the information required by Section 149(e) of the Code.

(v) The Company will pay the principal of and premium, if any, and interest to the Redemption Date on all Prior Bonds that are validly presented to the Company for payment after the Prior Trustee has paid to the Company, in accordance with Section 4.08 of the Prior Indenture, any moneys held in trust for the payment of the principal of and premium, if any, and interest on the Prior Bonds.

Concurrently with the initial authentication and delivery of the Bonds under the Indenture, the Company shall execute and deliver a certificate reaffirming the foregoing representations, warranties and agreements as of the date thereof.

ARTICLE III

ISSUANCE OF THE BONDS; THE LOAN; DISPOSITION OF PROCEEDS OF THE BONDS; THE PROJECT

SECTION 3.01. ISSUANCE OF BONDS. In order to refinance a portion of the cost of the Project by effecting the Refunding, the Issuer shall issue the Bonds under and in accordance with the Act and pursuant to the Indenture. The Company hereby approves the issuance of the Bonds and all terms and conditions thereof.

SECTION 3.02. ISSUANCE OF OTHER OBLIGATIONS. The Issuer and the Company expressly reserve the right to enter into, to the extent permitted by law, an agreement or agreements other than this Agreement with respect to the issuance by the Issuer, under an indenture or indentures other than the Indenture, of obligations to provide additional funds to pay costs of facilities in addition to the Project or to provide for the refunding of all or any principal amount of the Bonds. Such obligations will not be entitled to the benefits of the Indenture or the Credit Facility.

SECTION 3.03. THE LOAN; DISPOSITION OF BOND PROCEEDS AND CERTAIN OTHER MONEYS. The Issuer shall lend to the Company the proceeds of the issuance and sale of the Bonds for the purposes specified in Section 3.01 of this Agreement. The Issuer and the Company shall, simultaneously with the delivery of the Bonds, cause such proceeds, other than accrued interest, if any, to be transferred to the Prior Trustee for deposit into the Prior Bond Fund to be used to pay the principal amount of the Prior Bonds upon their redemption on the Redemption Date.

SECTION 3.04. CHANGES TO PROJECT. The Company may at its own expense cause the Project to be remodeled or cause such substitutions, modifications and improvements to be made to the Project from time to time as the Company, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications and improvements shall be included under the terms of this Agreement as part of the Project; provided, however, that no such remodeling, substitutions, modifications or improvements shall change the description of the Project set forth in Exhibit A to this Agreement or change the function of any principal

component of the Project described in Exhibit A to this Agreement unless, in either case, the Trustee and the Issuer first receive a Favorable Opinion of Bond Counsel with respect to such change. If any such supplement or amendment affects the description of the Project, the Company and the Issuer will amend Exhibit A to this Agreement to reflect such supplement or amendment, which supplement or amendment will not be considered as an amendment to this Agreement requiring the consent of any Owner, the Trustee or the Provider for the purposes of Article XII of the Indenture.

ARTICLE IV

LOAN PAYMENTS; PAYMENTS TO REMARKETING AGENT AND TRUSTEE; OTHER OBLIGATIONS

SECTION 4.01. LOAN PAYMENTS. (a) As and for repayment of the loan made to the Company by the Issuer pursuant to Section 3.03 hereof, the Company shall pay to the Trustee, for the account of the Issuer, an amount equal to the aggregate principal amount of and the premium, if any, on the Bonds from time to time Outstanding and, as interest on its obligation to pay such amount, an amount equal to interest on the Bonds, such amounts to be paid in installments due on the dates, in the amounts and in the manner provided in the Indenture for the payment of the principal of and premium, if any, and interest on the Bonds, whether at maturity, upon redemption, acceleration or otherwise; provided, however, that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any moneys held by the Trustee under the Indenture and available for such payment.

(b) In the event the Company shall fail to make any payment required by Section 4.01(a) hereof with respect to the principal of and premium, if any, and interest on any Bond, the payment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company will pay interest on any overdue amount with respect to principal of such Bond and, to the extent permitted by law, on any overdue amount with respect to premium, if any, and interest on such Bond, at the interest rate then borne by such Bond until paid.

SECTION 4.02. PAYMENTS OF PURCHASE PRICE. The Company shall pay or cause to be paid for its account to the Trustee amounts equal to the amounts to be paid by the Trustee as the purchase price for such Bonds pursuant to Section 3.01 and Section 3.02 of the Indenture in respect of Outstanding Bonds, such amounts to be paid to the Trustee on the dates such payments are to be made pursuant to Section 3.01 and Section 3.02 of the Indenture; provided, however, that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any moneys held by the Trustee under the Indenture and available for such payment.

SECTION 4.03. PAYMENTS ASSIGNED; OBLIGATION ABSOLUTE. It is understood and agreed that the Loan Payments are pledged and assigned by the Issuer to the Trustee pursuant to the Indenture, and that all right, title and interest of the Issuer hereunder (except for amounts payable to, and the rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 hereof and the Issuer's rights to receive notices,

certificates, requests, requisitions, directions and other communications hereunder) are pledged and assigned to the Trustee pursuant to the Indenture. The Company assents to such pledge and assignment and agrees that the obligation of the Company to make the Loan Payments and payments to the Trustee under Section 4.02 hereof shall be absolute, irrevocable and unconditional and shall not be subject to cancellation, termination or abatement, or to any defense other than payment, or to any right of setoff, counterclaim or recoupment arising out of any breach under this Agreement or the Indenture or otherwise by the Company, the Trustee, the Remarketing Agent, the Provider, the Auction Agent, the Broker-Dealer or any other party, and, further, that the Loan Payments and the other payments due hereunder shall continue to be payable at the times and in the amounts herein and therein specified whether or not the Project, or any portion thereof, shall have been destroyed by fire or other casualty, or title thereto, or the use thereof, shall have been taken by the exercise of the power of eminent domain, and that there shall be no abatement of or diminution in any such payments by reason thereof, whether or not the Project shall be used or useful and whether or not any applicable laws, regulations or standards shall prevent or prohibit the use of the Project or for any other reason. The Project shall not constitute any part of the Trust Estate or any part of the security for the Bonds.

SECTION 4.04. PAYMENT OF EXPENSES. The Company shall pay all of the Administration Expenses of the Issuer, the Trustee, the Paying Agent, the Registrar, the Auction Agent, the Broker Dealers, the Securities Depository, Moody's and S&P under the Indenture and of any Remarketing Agent under a Remarketing Agreement directly to each such entity. The Company shall also pay all of the expenses of the Prior Trustee in connection with the Refunding and all other reasonable fees and expenses incurred in connection with the issuance of the Bonds, including, but not limited to, all costs associated with any discontinuance of the book-entry system described in Section 2.16 of the Indenture. The obligations of the Company under this Section 4.04 shall survive the termination of this Agreement.

SECTION 4.05. INDEMNIFICATION. The Company releases the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees from, agrees that the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees shall not be liable for, and agrees to indemnify and hold free and harmless the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees from and against, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project, except in any case as a result of the negligence or willful misconduct of the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees.

The Company will indemnify and hold free and harmless the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees from and against any loss, claim, damage, tax, penalty, liability, disbursement, litigation or other expenses, attorneys' fees and expenses or court costs arising out of, or in any way relating to, the execution or performance of this Agreement, the Tax Certificate, the Auction Agreement, the issuance or sale of the Bonds, the Refunding, the acceptance or administration of the trust under the Indenture or any other cause whatsoever pertaining to this Agreement, the Tax Certificate, the Indenture, the Auction Agreement or the Credit Facility, except in any case as a result of the

negligence or willful misconduct of the Trustee, the Paying Agent and the Registrar or their respective officers, agents, servants and employees.

The obligations of the Company under this Section 4.05 shall survive the termination of this Agreement.

SECTION 4.06. PAYMENT OF TAXES AND CHARGES IN LIEU THEREOF. (a) The Company covenants and agrees that it will, from time to time for so long as the Company has an ownership interest in the Project, promptly pay and discharge or cause to be paid and discharged when due its share of all taxes, assessments, levies, duties, imposts and governmental, utility and other charges lawfully imposed upon the Project or any part thereof or upon income and profits thereof or any payments hereunder. In the event that the Company sells or otherwise transfers its interest in the Project while the Bonds are Outstanding, the Company shall require the purchasers or transferor of the Company's interest in the Project to assume the Company's obligations under this Section 4.06(a).

(b) The Company shall pay or cause to be satisfied and discharged or make adequate provision to satisfy and discharge (including the provisions of adequate bonding therefor) within 60 days after the same shall accrue, any lien or charge upon the Loan Payments or payments under Section 4.02 hereof, and all lawful claims or demands for labor, materials, supplies or other charges which, if unpaid, might be or become a lien thereon.

(c) Notwithstanding subsections (a) and (b) of this Section, the Company may, at its expense and in its own name and behalf or in the name and behalf of the Issuer, in good faith contest any such liens, taxes, assessments and other charges and, in the event of any such contest, may permit such liens, taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided further that during such period enforcement of such contested item is effectively stayed, unless by nonpayment of any such items the lien of the Indenture as to the amounts payable hereunder will be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items. The Issuer will cooperate fully with the Company in any such contest. In the event that the Company shall fail to pay any of the foregoing items required by this Section to be paid by the Company, the Issuer may (but shall be under no obligation to) pay the same, and any amounts so advanced therefor by the Issuer shall become an additional obligation of the Company to the Issuer. The Company agrees to repay the amounts so advanced, from the date thereof, together (to the extent permitted by law) with interest thereon until paid at a rate per annum which is one percentage point greater than the highest rate per annum then borne by any of the Bonds.

SECTION 4.07. CREDIT FACILITY. (a) The Company may at any time provide for a Change of Credit Facility, provided that the Company delivers to the Trustee, any Auction Agent and any Remarketing Agent, not less than five Business Days prior to the date on which the Trustee must notify the Owners of a Change of Credit Facility pursuant to Section 2.18 of the Indenture and prior to the effective date of any such Change of Credit Facility, the following:

(1) a notice which (A) states the effective date of the Change of Credit Facility, (B) describes the terms of the Change of Credit Facility, and (C) directs the Trustee to give notice pursuant to Section 2.18(a) of the Indenture;

(2) a Favorable Opinion of Bond Counsel with respect to such Change of Credit Facility and stating, in effect, that such change of Credit Facility is authorized under this Agreement;

(3) a certificate of an Authorized Company Representative as to whether the Bonds are then rated by either Moody's or S&P, or both; and

(4) written evidence from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Change of Credit Facility and that such Change of Credit Facility will not, by itself, result in a reduction, suspension or withdrawal of its rating or ratings of the Bonds.

(b) In lieu of satisfying the requirements of subsection (a) above, the Company may provide for a Change of Credit Facility at any time that the Bonds are subject to optional redemption pursuant to Section 4.02(b) of the Indenture, provided that the Company delivers to the Trustee, any Auction Agent and any Remarketing Agent not less than 30 days before the effective date of the Change of Credit Facility:

(1) a notice which (A) states the effective date of the Change of Credit Facility, (B) describes the terms of the Change of Credit Facility, (C) directs the Trustee to give notice pursuant to Section 2.18 of the Indenture that the Bonds are subject to mandatory purchase, in whole, on or before the effective date of the Change of Credit Facility in accordance with Section 3.02(b) of the Indenture, and (D) directs the Trustee to take any other action as shall be necessary for the Trustee to take to effect the Change of the Credit Facility; and

(2) on or before the effective date of the Change of Credit Facility, the Company shall furnish to the Trustee an opinion of Bond Counsel satisfying the requirements of Section 4.07(a)(2) above.

(c) The Company may provide for one or more extensions of a Credit Facility for any period commencing after its then-current expiration date without complying with the foregoing provisions of this Section.

(d) The Company may rescind its election to make a Change of Credit Facility at any time prior to the effective date thereof.

SECTION 4.08. COMPLIANCE WITH PRIOR AGREEMENT. The Company hereby confirms its obligations under the Prior Agreement to furnish any moneys required to be deposited with the Prior Trustee under the Prior Indenture in order to redeem the Prior Bonds on the Redemption Date, to the extent that the proceeds of the Bonds on deposit in the Prior Bond Fund, together

with any investment earnings thereon, is less than the amount required to pay the principal of and applicable redemption premium and interest on the Prior Bonds upon their redemption on the Redemption Date, in accordance with the terms and conditions of the Prior Indenture.

ARTICLE V

SPECIAL COVENANTS

SECTION 5.01. MAINTENANCE OF EXISTENCE; CONDITIONS UNDER WHICH EXCEPTIONS PERMITTED. The Company shall maintain in good standing its corporate existence as a corporation organized under the laws of one of the states of the United States or the District of Columbia and will remain duly qualified to do business in the State for so long as the Company has an ownership interest in the Project, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation; provided, however, that the Company may, without violating the foregoing, undertake from time to time any one or more of the following, if, prior to the effective date thereof, such action is approved by all public utility commissions or similar entities that are required by law to approve such action and there shall have been delivered to the Trustee a Favorable Opinion of Bond Counsel with respect to the contemplated action:

(a) consolidate or merge with another corporation or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety, provided the resulting, surviving or transferee entity, as the case may be, shall be (i) the Company or (ii) an entity qualified to do business in the State as a foreign corporation or incorporated and existing under the laws of the State which shall have assumed in writing all of the obligations of the Company hereunder and shall deliver to the Trustee an opinion of counsel to the Company that such consolidation or merger complies with the provisions of this Section 5.01; or

(b) convey all or substantially all of its assets to one or more wholly-owned subsidiaries of the Company so long as the Company shall remain in existence and primarily liable on all of its obligations hereunder.

SECTION 5.02. PERMITS OR LICENSES. In the event that it may be necessary for the proper performance of this Agreement on the part of the Company or the Issuer that any application or applications for any permit or license to do or to perform certain things be made to any governmental or other agency by the Company or the Issuer, the Company and the Issuer each shall, upon the request of either, execute such application or applications.

SECTION 5.03. ARBITRAGE COVENANT. The Issuer, to the extent it has any control over proceeds of the Bonds, and the Company covenant and represent to each other and to and for the benefit of the Beneficial Owners that so long as any of the Bonds remain Outstanding, moneys on deposit in any fund in connection with the Bonds, whether such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, will not be used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and any lawful regulations promulgated thereunder, as the same exist on this date or may from time to time hereafter be amended, supplemented or revised. The Company also covenants for the benefit of the Beneficial Owners to comply with all of the provisions of the Tax Certificate. The Company reserves the right, however, to make any investment of such moneys permitted by State law, if, when and to the extent that said Section 148 or regulations promulgated thereunder shall be repealed or relaxed or shall be held void by final judgment of a court of competent jurisdiction, but only upon receipt of a Favorable Opinion of Bond Counsel with respect to such investment.

SECTION 5.04. FINANCING STATEMENTS. The Company shall, to the extent required by law, file and record, refile and re-record, or cause to be filed and recorded, refiled and re-recorded, all documents or notices, including the financing statements and continuation statements, referred to in Section 5.05 of the Indenture. The Issuer shall cooperate fully with the Company in taking any such action. Concurrently with the execution and delivery of the Bonds, the Company shall cause to be delivered to the Trustee the opinion of counsel required pursuant to Section 5.05(a) of the Indenture.

SECTION 5.05. COVENANTS WITH RESPECT TO TAX-EXEMPT STATUS OF THE BONDS. The Company covenants for the benefit of the Owners of the Bonds and the Issuer that it (a) has not taken, and will not take or permit to be taken on its behalf, any action which would adversely affect the Tax-Exempt status of the Bonds and (b) will take, or require to be taken, such actions as may, from time to time, be required under applicable law or regulation to continue to cause the Bonds to be Tax-Exempt.

SECTION 5.06. INDEMNIFICATION OF ISSUER. (a) The Company agrees that the Issuer, its elected or appointed officials, officers, agents, servants and employees, shall not be liable for, and agrees that it will at all times indemnify and hold free and harmless the Issuer, its elected or appointed officials, officers, agents, servants and employees from and against, and pay all expenses of the Issuer, its elected or appointed officials, officers, agents, servants and employees relating to, (a) any lawsuit, proceeding or claim arising in connection with the Project or this Agreement that results from any action taken by or on behalf of the Issuer, its elected or appointed officials, officers, agents, servants and employees pursuant to or in accordance with this Agreement or the Indenture that may be occasioned by any cause whatsoever, except the negligence or willful misconduct of the Issuer, its elected or appointed officials, officers, agents, servants or employees, or (b) any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project, except the negligence or willful misconduct of the Issuer, its elected or appointed officials, officers, agents, servants or employees. In case any action shall be brought against the Issuer in respect of which indemnity may be sought against the Company, the Issuer shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Issuer and the payment of all expenses.

Failure by the Issuer to notify the Company shall not relieve the Company from any liability which it may have to the Issuer otherwise than under this Section 5.06. The Issuer shall have the right to employ separate counsel in any such action and participate in the defense thereof, such counsel shall be paid by the Issuer unless the employment of such counsel has been authorized by the Company. The Company shall not be liable for any settlement of any such action without its consent, but if any such action is settled with the consent of the Company or if there be final judgment for the plaintiff in any such action, the Company agrees to indemnify and hold free and harmless the Issuer, its elected or appointed officials, officers, agents, servants and employees from and against any loss or liability by reason of such settlement or judgment. The Company will reimburse the Issuer, its elected or appointed officials, officers, agents, servants and employees for any action taken pursuant to Section 5.03 of the Indenture.

(b) The obligations of the Company under this Section 5.06 shall survive the termination of this Agreement.

(c) It is the intention of the parties that the Issuer, its elected or appointed officials, officers, agents, servants and employees shall not incur any pecuniary liability by reason of the terms of this Agreement or the Indenture, or the undertakings required of the Issuer hereunder or thereunder or by reason of the issuance of the Bonds, the execution of the Indenture or the performance of any act required of the Issuer by this Agreement or the Indenture or requested of the Issuer by the Company.

SECTION 5.07. RECORDS OF COMPANY; MAINTENANCE AND OPERATION OF THE PROJECT. (a) The Trustee and the Issuer shall be permitted at all reasonable times during the term of this Agreement to examine the books and records of the Company with respect to the Project; provided, however, that information and data contained in the books and records of the Company shall be considered proprietary and shall not be voluntarily disclosed by the Trustee or the Issuer except as required by law.

(b) The Company shall cause the Project to be maintained in good repair and shall cause the Project to be insured in accordance with standard industry practice and shall pay all costs thereof. All proceeds of such insurance shall be for the account of the Company.

(c) The Company shall be entitled to the proceeds of any condemnation award or portion thereof made for damage to or taking of any of the Project or other property of the Company.

(d) Anything in this Agreement to the contrary notwithstanding, the Company shall have the right at any time to cause the operation of the Plant to be terminated if the Company shall have determined or concurred in a determination that the continued operation of the Plant is uneconomical for any reason.

SECTION 5.08. RIGHT OF ACCESS TO THE PROJECT. The Company agrees that the Issuer, the Trustee and their respective duly authorized agents shall have the right, for so long as the Company has an ownership interest in the Project and subject to such limitations, restrictions and requirements as the Company may reasonably prescribe for plant security and safety reasons and

in order to preserve secret processes and formulae, at all reasonable times to enter upon and to examine and inspect the Project; provided, however, nothing contained herein shall entitle the Issuer or the Trustee to any information or inspection involving confidential material of the Company. Information and data contained in the books and records of the Company shall be considered proprietary and shall not be voluntarily disclosed by the Issuer or the Trustee except as required by law. In the event that the Company sells or otherwise transfers its interest in the Project, the Company shall require the purchaser or transferee of the Company's interest in the Project to agree that the Issuer, the Trustee and their respective duly authorized agents shall have the same rights, and be subject to the same limitations, as are provided in this Section with respect to the Project.

SECTION 5.09. REMARKETING AGENT. So long as any of the Bonds are subject to optional or mandatory purchase pursuant to the provisions of the Indenture (except during a Term Interest Rate Period that extends to the maturity of the Bonds), the Company shall cause a Remarketing Agent to be appointed and acting pursuant to a Remarketing Agreement at all such times as shall be necessary in order to provide for the remarketing of the Bonds and the establishment of interest rates to be borne by the Bonds in accordance with the provisions of the Indenture.

SECTION 5.10. CREDIT RATINGS. The Company shall take all reasonable action necessary to enable at least two nationally-recognized statistical rating organizations (as that term is used in the rules and regulations of the Securities and Exchange Commission under the Securities Exchange Act) to provide credit ratings for the PARS Rate Bonds.

SECTION 5.11. PURCHASES OF PARS RATE BONDS. The Company shall not purchase or otherwise acquire PARS Rate Bonds unless the Company redeems or cancels such PARS Rate Bonds on the day of any such purchase.

SECTION 5.12. CREDIT FACILITY. Concurrently with the initial authentication and delivery of the Bonds, the Company shall cause the original Credit Facility to be delivered to the Trustee. Under the Credit Facility, the Provider shall guarantee the payment of the principal of the Bonds upon the stated maturity thereof and upon the mandatory redemption of the Bonds pursuant to Section 4.03 of the Indenture and the payment of the interest on the Bonds as the same accrues and becomes due and payable. The Issuer and the Company agree to be bound by the provisions of the Indenture pertaining to the Credit Facility.

ARTICLE VI

ASSIGNMENT

SECTION 6.01. CONDITIONS. The Company's interest in this Agreement may be assigned in whole or in part by the Company: (a) to another entity, subject, however, to the conditions that such assignment shall not relieve (other than as described in Section 5.01(a)(ii) hereof) the Company from primary liability for its obligations to make the Loan Payments or to make payments to the Trustee under Section 4.02 hereof or for any other of its obligations hereunder, or (b) to an Affiliate in connection with the conveyance of the Plant to such Affiliate, subject,

however, to the conditions that (i) such Affiliate is an entity described in Section 5.01(a)(ii) hereof (in which case the Company shall be relieved of all obligations hereunder); (ii) such conveyance is approved by any public utility commissions or similar entities that are required by law to approve such conveyance; and (iii) the Company shall have delivered to the Trustee (A) an opinion of counsel to the Company that such assignment complies with the provisions of this Section 6.01 and (B) a Favorable Opinion of Bond Counsel with respect to such assignment.

SECTION 6.02. DOCUMENTS FURNISHED TO TRUSTEE. The Company shall, within 30 days after the delivery thereof, furnish to the Issuer and the Trustee a true and complete copy of the agreements or other documents effectuating any assignment pursuant to Section 6.01 hereof. The Trustee's only duties with respect to any such agreement or other document so furnished to it shall be to make the same available for examination by any Owner at the Principal Office of the Trustee upon reasonable notice.

SECTION 6.03. LIMITATION. This Agreement shall not be assigned in whole or in part, except as provided in this Article VI or in Section 4.03 or Section 5.01 hereof.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. EVENTS OF DEFAULT. Each of the following events shall constitute and is referred to in this Agreement as an "Event of Default":

(a) a failure by the Company to make when due any Loan Payment or any payment required under Section 4.01 or Section 4.02 hereof, which failure shall have resulted in an "Event of Default" under Section 9.01(a), Section 9.01(b) or Section 9.01(c) of the Indenture;

(b) a failure by the Company to pay when due any amount required to be paid under this Agreement or to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement (other than a failure described in Section 7.01(a) above), which failure shall continue for a period of 90 days (or such longer period as the Issuer and the Trustee may agree to in writing) after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Company by the Trustee or to the Company and the Trustee by the Issuer; provided, however, that if such failure is other than for the payment of money and is of such nature that it cannot be corrected within the applicable period, such failure shall not constitute an "Event of Default" so long as the Company institutes corrective action within the applicable period and such action is being diligently pursued;

(c) the dissolution or liquidation of the Company; or the filing by the Company of a voluntary petition in bankruptcy; or failure by the Company promptly to lift or bond any execution, garnishment or attachment of such consequence as will impair its ability to make any payments under this Agreement; or the filing of a petition or answer proposing

the entry of an order for relief by a court of competent jurisdiction against the Company under Title 11 of the United States Code, as the same may from time to time be hereafter amended, or proposing the reorganization, arrangement or debt readjustment of the Company under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted and the failure of said petition or answer to be discharged or denied within ninety (90) days after the filing thereof or the entry of an order for relief by a court of competent jurisdiction in any proceeding for its liquidation or reorganization under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted; or an assignment by the Company for the benefit of its creditors; or the entry by the Company into an agreement of composition with its creditors (the term "dissolution or liquidation of the Company," as used in this subsection (c), shall not be construed to include the cessation of the corporate existence of the Company resulting either from a merger or consolidation of the Company into or with another corporation or a dissolution or liquidation of the Company following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions contained in Section 5.01 hereto; or

(d) receipt by the Trustee of written notice from Ambac that an Event of Default has occurred under the initial Credit Facility Agreement or the occurrence of an event described in any subsequent Credit Facility Agreement that is designated therein as giving rise to an Event of Default hereunder.

SECTION 7.02. FORCE MAJEURE. The provisions of Section 7.01(b) hereof are subject to the following limitations: if by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or the State, or any department, agency, political subdivision, court or official of any of such State or any other state which asserts regulatory jurisdiction over the Company; orders of any kind of civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; volcanoes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; partial or entire failure of utilities; or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out any one or more of its agreements or obligations contained herein, other than its obligations under Section 4.01, Section 4.02, Section 4.04, Section 4.05, Section 4.06, Section 5.01 and Section 5.06 hereof, the Company shall not be deemed in default by reason of not carrying out said agreement or agreements or performing said obligation or obligations during the continuance of such inability. The Company shall make reasonable effort to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 7.03. REMEDIES. (a) Upon the occurrence and continuance of any Event of Default described in Section 7.01(a) or Section 7.01(c) hereof, and further upon the condition that, in accordance with the terms of the Indenture, the Bonds shall have been declared to be immediately due and payable pursuant to any provision of the Indenture, the Loan Payments shall without further action, become and be immediately due and payable.

(b) Any waiver of any "Event of Default" under the Indenture and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Agreement and a rescission and annulment of the consequences thereof.

(c) Upon the occurrence and continuance of any Event of Default, the Issuer may take any action at law or in equity to collect any payments then due and thereafter to become due hereunder or to seek injunctive relief or specific performance of any obligation, agreement or covenant of the Company hereunder.

(d) Any amounts collected from the Company pursuant to this Section 7.03 shall be applied in accordance with the Indenture. No action taken pursuant to this Section 7.03 shall relieve the Company from the Company's obligations pursuant to Section 4.01 or Section 4.02 hereof.

SECTION 7.04. NO REMEDY EXCLUSIVE. No remedy conferred upon or reserved to the Issuer hereby is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this Article VII, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

SECTION 7.05. REIMBURSEMENT OF ATTORNEYS' FEES. If the Company shall default under any of the provisions hereof and the Issuer or the Trustee shall employ attorneys or incur other reasonable and proper expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Company contained herein, the Company will on demand therefor reimburse the Issuer or the Trustee, as the case may be, for the reasonable and proper fees of such attorneys and such other reasonable and proper expenses so incurred.

SECTION 7.06. WAIVER OF BREACH. In the event any obligation created hereby shall be breached by either of the parties hereto and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of certain of the Issuer's rights and interest hereunder to the Trustee, the Issuer shall have no power to waive any Event of Default hereunder by the Company in respect of such rights and interest without the consent of the Trustee, and the Trustee may exercise any of the rights of the Issuer hereunder.

ARTICLE VIII

PURCHASE OR REDEMPTION OF BONDS

SECTION 8.01. REDEMPTION OF BONDS. The Issuer shall take or cause to be taken the actions required by the Indenture (other than the payment of money) to discharge the lien thereof through the redemption, or provision for payment or redemption, of all Bonds then Outstanding, or to effect the redemption, or provision for payment or redemption, of less than all the Bonds then Outstanding, upon receipt by the Issuer and the Trustee from an Authorized Company Representative of a written notice designating the principal amount of the Bonds to be redeemed and specifying the date of redemption (which, unless waived by the Issuer and the Trustee, shall not be less than 30 days from the date such notice is given, or such shorter period as the Trustee and the Company may agree from time to time) and the applicable redemption provision of the Indenture. Unless otherwise stated therein and except with respect to a redemption under Section 4.03 of the Indenture, such notice shall be revocable by the Company at any time prior to the time at which the Bonds to be redeemed, or for the payment or redemption of which provision is to be made, are first deemed to be paid in accordance with Article VIII of the Indenture. The Company shall furnish any moneys required by the Indenture to be deposited with the Trustee or otherwise paid by the Issuer in connection with any of the foregoing purposes. In connection with any redemption of the Bonds, the Company shall provide to the Trustee the names and addresses of the Securities Depositories and Information Services as contemplated by Section 4.05 of the Indenture.

SECTION 8.02. PURCHASE OF BONDS. The Company may at any time, and from time to time, furnish moneys to the Trustee accompanied by a notice directing such moneys to be applied to the purchase of Bonds in accordance with the provisions of the Indenture delivered pursuant to the Indenture, which Bonds shall, at the direction of the Company, be delivered in accordance with Section 3.06(a)(ii) of the Indenture.

SECTION 8.03. OBLIGATION TO PREPAY. (a) The Company shall be obligated to prepay in whole or in part the amounts payable hereunder upon a Determination of Taxability (as defined below) giving rise to a mandatory redemption of the Bonds pursuant to Section 4.03 of the Indenture, by paying an amount equal to, when added to other funds on deposit in the Bond Fund, the aggregate principal amount of the Bonds to be redeemed pursuant to the Indenture plus accrued interest to the redemption date.

(b) The Company shall cause a mandatory redemption to occur within 180 days after a Determination of Taxability (as defined below) shall have occurred. A "Determination of Taxability" shall be deemed to have occurred if, as a result of the failure of the Company to observe any covenant, agreement or representation in this Agreement, a final decree or judgment of any federal court or a final action of the Internal Revenue Service determines that interest paid or payable on any Bond is or was includible in the gross income of an Owner of the Bonds for federal income tax purposes under the Code (other than an Owner who is a "substantial user" or "related person" within the meaning of Section 103(b)(13) of the 1954 Code). However, no such decree or action will be considered final for this purpose unless the Company has been given written notice of the same, either directly or in the name of any Owner of a Bond, and, if it so

desires and is legally allowed, has been afforded the opportunity to contest the same, either directly or in the name of any Owner of a Bond, and until conclusion of any appellate review, if sought. If the Trustee receives written notice from any Owner of a Bond stating (a) that the Owner has been notified in writing by the Internal Revenue Service that it proposes to include the interest on any Bond in the gross income of such Owner for the reasons described therein or any other proceeding has been instituted against such Owner which may lead to a final decree or action as described herein, and (b) that such Owner will afford the Company the opportunity to contest the same, either directly or in the name of the Owner, until a conclusion of any appellate review, if sought, then the Trustee shall promptly give notice thereof to the Company, the Issuer, the Provider and the Owner of each Bond then Outstanding. If a final decree or action as described above thereafter occurs and the Trustee has received written notice thereof as provided in Section 8.01 hereof at least 45 days prior to the redemption date, the Trustee shall request prepayment from the Company of the amounts payable hereunder and give notice of the redemption of the Bonds at the earliest practical date, but not later than the date specified in this Article, and in the manner provided by Section 4.05 of the Indenture.

At the time of any such prepayment of the amounts payable hereunder pursuant to this Section, the prepayment amount shall be applied, together with other available moneys in the Bond Fund, to the redemption of the Bonds on the date specified in the notice as provided in the Indenture, whether or not such date is an Interest Payment Date, to the Trustee's fees and expenses under the Indenture accrued to such redemption of the Bonds, and to all sums due to the Issuer under this Agreement.

Whenever the Company shall have given any notice of prepayment of the amounts payable hereunder pursuant to this Article VIII, which includes a notice for redemption of the Bonds pursuant to the Indenture, all amounts payable under the first paragraph of this Section 8.03 shall become due and payable on the date fixed for redemption of such Bonds.

SECTION 8.04. COMPLIANCE WITH INDENTURE. Anything in this Agreement to the contrary notwithstanding, the Issuer and the Company shall take all actions required by this Agreement and the Indenture in order to comply with the provisions of Articles III and IV of the Indenture.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. TERM OF AGREEMENT. This Agreement shall remain in full force and effect from the date of delivery hereof until the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article VIII of the Indenture and until all payments required under this Agreement shall have been made. The date first above written shall be for identification purposes only and shall not be construed to imply that this Agreement was executed on such date.

SECTION 9.02. NOTICES. Except as otherwise provided in this Agreement, all notices, certificates, requests, requisitions and other communications hereunder shall be in writing and

shall be sufficiently given and shall be deemed given when mailed by Mail or by certified or registered mail postage prepaid, or by overnight delivery service, addressed as follows (and, if by overnight delivery service and required by the chosen delivery service, with then-current telephone number of the addressee): if to the Issuer, at City Hall, Forsyth, Montana 59327, Attention: Mayor; if to the Company, at 1411 East Mission Avenue, Spokane, Washington 99220, Attention: Treasurer; if to the Trustee, at such address as shall be designated by it in or pursuant to the Indenture; if to the Auction Agent, if any, at such address as shall be designated by such party pursuant to the Auction Agreement; if to the Provider of the Credit Facility, at such address as shall be designated by it in or pursuant to the Indenture; and if to the Remarketing Agent, if any, at such address as shall be designated by such party pursuant to the Remarketing Agreement. A copy of each notice, certificate, request or other communication given hereunder to the Issuer, the Company, the Trustee, the Auction Agent, the Provider and the Remarketing Agent shall also be given to the others. Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

SECTION 9.03. PARTIES IN INTEREST. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, and no other person, firm or corporation shall have any right, remedy or claim under or by reason of this Agreement except for rights of payment and indemnification hereunder of the Trustee and the Registrar. Section 9.05 hereof to the contrary notwithstanding, for purposes of perfecting a security interest in this Agreement by the Trustee, only the counterpart delivered, pledged and assigned to the Trustee shall be deemed the original. No security interest in this Agreement may be created by the transfer of any counterpart thereof other than the original counterpart delivered, pledged and assigned to the Trustee.

SECTION 9.04. AMENDMENTS. This Agreement may be amended only by written agreement of the Company and the Issuer and with the written consent of the Trustee in accordance with the provisions of Section 12.05 or 12.06 of the Indenture, as applicable; provided, however, that Exhibit A to this Agreement may be amended upon compliance only with the requirements of Section 3.04 hereof.

SECTION 9.05. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original (except as expressly provided in Section 9.03 hereof), and such counterparts shall together constitute but one and the same Agreement.

SECTION 9.06. SEVERABILITY. If any clause, provision or Section of this Agreement shall, for any reason, be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 9.07. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

CITY OF FORSYTH, MONTANA

By: _____
Mayor

[SEAL]

ATTEST:

By: _____
City Clerk

AVISTA CORPORATION

By: _____
Vice President & Treasurer

EXHIBIT A

PROJECT DESCRIPTION

1. POLLUTION CONTROL EQUIPMENT

SCRUBBER SYSTEM

The air pollution control facilities employed on Units #3 and #4 consist of a complete scrubber system, including duct work, plenums, scrubber vessels, reheaters and induced draft fans, together with infrastructures, monitoring and electrical controls and instrumentation therefore, for the purpose of removing the sulfur dioxide (SO2) and particulate matter from the flue gas. The scrubber system also includes a scrubber maintenance facility, including a machine shop and laboratory dedicated to the scrubber system and an environmental monitoring laboratory for the pollution control facilities. The scrubber system utilizes the Wet Venturi Principle and consists of eight modules for each unit through which the steam generator gases from the burned coal must pass.

The gases in the scrubber are contacted with finely atomized scrubber slurry. Within the stated performance of the system, fly ash particulates are removed by the slurry droplets. The sulfur dioxide reacts with the alkali contained in the slurry which results from the mixing of water, fly ash particulates, hydrated high calcium lime and hydrated dolomitic lime. A major portion of the sulfur dioxide is converted to solid sulfate compounds which are retained in the scrubber liquid and can, therefore, be piped to and deposited in an ash pond together with the particulate.

After the flue gas passes through the venturi section, absorption sprays and wash trays, it is processed through a demister which removes any entrained slurry and is then reheated and discharged through the stack.

The slurry system in the Units #3 and #4 scrubber system consists of recycle tanks, regenerators, agitators, pumps and pipelines. The slurry from the Units #3 and #4 scrubber system is transported to an effluent holding pond and involves the use of effluent holding tanks, agitators, pumps and pipelines. A separate wash tray pond system is used to store the suspended solids collected from the wash tray system. Reclaimed water from the clear water section of these ponds is circulated back to the scrubber system.

LIME STORAGE

The sole purpose of the lime system is to supply the lie slurry requirements of the scrubber regeneration system. There is one lime system that serves the sixteen scrubbers for Units #3 and #4. Major components of the system include four slakers, in which calcined high calcium lime is reacted with water to produce a hydrated lime slurry, slurry transfer tanks, where the slurry is diluted with water and mixed with dry hydrated dolomitic lime, slurry feed storage tanks, where

the slurry will be held for use by the regenerators as needed, hydrators, for mixing calcined dolomitic lime with water, and agitators.

SCRUBBER SLUDGE DISPOSAL

Effluent slurry is pumped from the plant to the sludge disposal pond located approximately three miles southeast of the plant. The suspended solids settle to the pond bottom and the clear water is pumped back to the plant.

There are two phases in the development of this pond. The first phase requires the construction of one dam 108 feet high and 1,100 feet in length. A saddle dam must also be added. The saddle dam will vary in height with a maximum height for this phase of 36 feet and be approximately 2,800 feet in length. The capacity of Phase 1 will be 6,650 acre-feet and it will last approximately 10 years.

The development of the second phase will require that the original dam be raised to 138 feet in height and increased to a length of 2,500 feet. The saddle dam will be raised to a maximum height of 66 feet and a total length of 3,500 feet. The capacity of the second phase will be an additional 7,000 acre-feet and it will last approximately 12 years, for a total life of 22 years. The construction of the second phase is not included in cost reported at this time.

The sludge disposal pond design takes into account a permit requirement for minimum seepage, by providing low permeability plastic concrete filled trenches around the periphery of the pond constructed during the course of Phase 1 work.

COAL DUST CONTROL SYSTEM

The coal dust control system is designed to collect, store and treat coal dust resulting from mining, crushing, handling and storing coal in the course of normal Units #3 and #4 operations. To control coal dust air pollution the points where coal is transferred between conveyors or placed in coal piles have been enclosed. The coal transfer stations between conveyors are enclosed with steel framed structures with metal siding. The structures are equipped with vacuum filtration systems, consisting of ducts, blowers, dust removal filters and associated equipment, to remove coal dust from exhaust air from the structures, and are also equipped with mechanical dust collectors. The main line 45,000 ton coal storage pile is enclosed with a 340' long A-frame precast panel concrete structure designed to contain coal dust, thereby allowing its removal and treatment.

COOLING TOWER DRIFT CONTAINMENT CONTROL FACILITY

Operation of the cooling towers produces exhaust air emissions containing circulating water, particulates and other pollutants generally known as cooling tower drift. To control release of these air pollutants, the cooling towers are provided with high efficiency drift eliminators, located at the top of the cooling tower structures, which remove drift from the cooling tower exhaust air.

2. SOLID WASTE DISPOSAL

BOTTOM ASH DISPOSAL

The function of the bottom ash disposal system is to remove accumulations of furnace bottom ash, pulverizer pyrites, economizer ash, and air preheater fly ash by means of a water-ash slurry to a disposal pond located approximately 2,000 feet southeast of the plant site. The system consists generally of three sets of fly ash hoppers, (economizer, air heater, and flue gas duct hoppers) pyrite hoppers, the bottom ash hopper, and 18,000 gallon transfer tank, a settling pond, a clear water pond and various pumps, and pipelines.

Clinker grinders are used to grind the bottom ash which is then mixed with water and sluiced to the ash transfer tank.

The economizer ash collected in economizer hoppers falls by gravity to the ash transfer tank.

The pyrites are collected in local tanks and sluiced to the ash transfer tank.

Ash collected in the flue gas duct hoppers and air preheater hoppers is sluiced to the ash transfer tank.

These ashes are pumped from the ash transfer tank to the bottom ash pond. Reclaimed water is returned from the bottom ash disposal pond and redistributed to the various sections of the bottom ash disposal system.

The solid waste disposal facilities for purposes of the issuance of the Bonds include only so much of the bottom ash disposal system as is external to the plant building and include piping from the building to the settling pond, the pond itself, return water pumps and lines, a clear water pond and piping back to the plant building.

3. WATER POLLUTION CONTROL

NORTH PLANT SEDIMENT POND

The north plant sediment pond is designed to collect and store the storm runoff from the general north plant area. These waters are retained in the pond, allowing natural evaporation to desiccate the pond. This prevents high quantities of suspended solids from being discharged to Armells Creek or other state surface waters.

NORTH PLANT AREA DRAINAGE SYSTEM

The north plant area drainage system is designed to collect and store storm runoff from the water treatment building, fuel oil handling area and the cooling tower area in the north plant area drain pond. The pond also serves as a storage facility for one cooling tower basin drain,

cooling tower overflow, water treatment filter backwash, and for the cooling tower blowdown water not used in the flue gas scrubbing process. These waters are potentially contaminated with oil and high suspended and dissolved solids, and this system stores these discharges preventing any discharge to Armells Creek or other state surface waters. The north plant area drainage system consists of collection basins, piping, concrete culverts, yard drains, manholes and special yard gradings (berms) which route these discharges to the north plant area sump and north plant area drain pond. The north plant area drain pond incorporates a hypalon liner to comply with a permit requirement for minimum seepage. The oil separator section of the sump receives oily surface collection drains. The oil and water are separated. The oil from the sump is then trucked away for disposal.

The water discharges are either pumped to the scrubber effluent holding pond via a 6" diameter pipeline, 19,000 feet in length for evaporation, to the circulating water system, or the plant oily waste sump as appropriate. Each discharge arrangement has its own set of sump pumps. The pumps and piping system which discharge to the plant oily waste sump are not included in the costs covered by this Report, nor is the circulating water system. The waters recovered are excess to any plant requirements and recovery of the waters does not provide any economic benefit to the plant.

CHEMICAL AND OILY WASTE SYSTEM

The chemical and oily waste system is designed to collect, store, treat and dispose of chemical and oily wastes resulting from the normal operation of Units #3 and #4. This system consists of drains and pipes, oil separators, chemical waste sumps, chemical waste neutralizing tanks, neutralizing chemical storage tanks, chemical inspection equipment, and associated mechanical and electrical control equipment.

The chemical waste drainage system includes drains and neutralization tanks for collection and treatment of chemical waste Chemical waste drains are located throughout Units #3 and #4, and are used to collect and transfer chemical waste to holding sumps and neutralization tanks. The neutralization equipment includes chemical storage and injection equipment as well as controls and instrumentation.

The oily waste drainage system is made up of a network of drains which collect oily waste from throughout Units #3 and #4, and dispose of the wastes in the Units #3 and #4 main water-oil sump. Oil separation chambers in the sump allow for oil removal. The treated water is monitored for trace oil levels and released. After separation, the waste oil is removed by a contractor to an offsite disposal area.

COOLING TOWER BLOWDOWN SYSTEM

The cooling tower blowdown system consists of a 6" pipeline from the cooling tower to the waste disposal pond where the blowdown is treated by settlement and evaporation in accordance with water pollution control requirements.

GROUNDWATER MONITORING WELLS

Groundwater monitoring wells have been installed around the various ponds associated with the plant operation. These ponds include the scrubber effluent holding pond, the scrubber drain pond, the scrubber wash tray pond, the bottom ash pond, and the north plant area effluent pond. These groundwater monitoring wells provide the ability through sampling to detect and quantify accidental discharges from the above mentioned plant storage and waste ponds. This is necessary to show compliance with State Groundwater Standards and with permit requirements for minimum seepage.

EXHIBIT 4(b)-2

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TRUST INDENTURE

BETWEEN

CITY OF FORSYTH, MONTANA

AND

CHASE MANHATTAN BANK AND TRUST COMPANY,
NATIONAL ASSOCIATION,

AS TRUSTEE

$66,700,000
CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999A

DATED AS OF SEPTEMBER 1, 1999

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TRUST INDENTURE

THIS TRUST INDENTURE is made and entered into as of September 1, 1999, between the CITY OF FORSYTH, MONTANA, a political subdivision duly organized and existing under the Constitution and laws of the State and CHASE MANHATTAN BANK AND TRUST COMPANY, NATIONAL ASSOCIATION, as trustee.

RECITALS

A. In furtherance of its public purposes, the Issuer has entered into a Loan Agreement, dated as of September 1, 1999, with Avista Corporation, a Washington corporation, providing for the issuance by the Issuer of the Bonds for the purpose of refunding, in advance of stated maturity, the Prior Bonds.

B. The execution and delivery of this Indenture and the issuance and sale of the Bonds have been in all respects duly and validly authorized by proper action duly adopted by the governing authority of the Issuer.

C. The execution and delivery of the Bonds and of this Indenture have been duly authorized and all things necessary to make the Bonds, when executed by the Issuer and authenticated by the Trustee, valid and binding legal obligations of the Issuer and to make this Indenture a valid and binding agreement have been done.

NOW, THEREFORE, THIS TRUST INDENTURE WITNESSETH:

GRANTING CLAUSES

The Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the Owners thereof, and for other good and valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, and premium, if any, and interest on, the Bonds according to their tenor and effect and to secure the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell convey, mortgage and warrant, and assign, pledge and grant a security interest in, the Trust Estate to the Trustee, and its successors in trust and assigns forever for the benefit of the Owners:

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, to the Trustee and its respective successors in trust and assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the Bonds issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, and premium, if any, and interest on, the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds and as provided in Article VIII hereof according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article V hereof, or shall provide, as permitted hereby, for the payment thereof in accordance with Article VIII hereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay, or cause to be paid, the principal of, and premium, if any, and interest on, the Bonds due or to become due in accordance with the terms and provisions hereof, then and in that case this Indenture and the rights hereby granted shall cease, terminate and be void and the Trustee shall thereupon cancel and discharge this Indenture and execute and deliver to the Issuer and the Company such instruments in writing as shall be requisite to evidence the discharge hereof, otherwise this Indenture shall be and remain in full force and effect.

THIS TRUST INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all of the Trust Estate is to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners, from time to time, of the Bonds, or any part thereof, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.01. GENERAL DEFINITIONS. The terms defined in this Section 1.01 shall have the meanings provided herein for all purposes of this Indenture and the Agreement, unless the context clearly requires otherwise. Additional definitions relating to the PARS Rate are contained in Section 1.02. The two sets of definitions contained in Sections 1.01 and 1.02 are set forth separately for convenience of reference only.

"Act" means Sections 90-5-101 to 90-5-114, inclusive, Montana Code Annotated, as from time to time supplemented and amended.

"Administration Expenses" means reasonable compensation and reimbursement of reasonable expenses and advances payable to the Issuer, the Trustee, the Registrar, the Remarketing Agent, the Paying Agent, Moody's and S&P.

"Agreement" or "Loan Agreement" means the Loan Agreement, dated as of September 1, 1999, between the Issuer and the Company, as amended and supplemented from time to time.

"Ambac" shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Authorized Company Representative" means each person at the time designated to act on behalf of the Company by written certificate furnished to the Issuer and the Trustee containing the specimen signature of such person and signed on behalf of the Company by its President, any Vice President, its Secretary, any Assistant Secretary, its Treasurer or any Assistant Treasurer. Such certificate may designate an alternate or alternates.

"Authorized Denomination" means (i) $25,000 or any integral multiple of $25,000 when the Bonds bear interest as a PARS Rate; (ii) $100,000 or any integral multiple of $100,000 when the Bonds bear interest at a Daily Interest Rate or Weekly Interest Rate; (iii) $100,000 or any integral multiple of $5,000 in excess of $100,000 when the Bonds bear interest at a Flexible Interest Rate; and (iv) $5,000 or any integral multiple of $5,000 when the Bonds bear interest at a Term Interest Rate.

"Beneficial Owner" has, when the Bonds are held in book-entry form, the meaning ascribed to such term in Section 2.16 hereof

"Bond" or "Bonds" means the Issuer's Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999A, issued pursuant to this Indenture.

"Bond Counsel" means Chapman and Cutler or any other firm of nationally recognized bond counsel familiar with the type of transactions contemplated under this Indenture selected by the Company and acceptable to the Trustee.

"Bond Documents" means this Indenture, the Agreement and the Bonds.

"Bond Fund" means the trust fund by that name created pursuant to Section 6.01(a) hereof.

"Bond Payment Date" means any Interest Payment Date and any other date on which the principal of, and premium, if any, and interest on, the Bonds is to be paid to the Owners thereof, whether upon redemption, at maturity or upon acceleration of maturity of the Bonds.

"Bond Purchase Contract" means the Bond Purchase Contract dated September 8, 1999, between the Issuer and Goldman, Sachs & Co., as Underwriter.

"Bond Resolution" means the resolution duly adopted and approved by the City Council of the Issuer on August 23, 1999, authorizing the issuance and sale of the Bonds and the execution of this Indenture and the Agreement.

"Business Day" means any day except a Saturday, Sunday or other day (a) on which commercial banks located in the cities in which the Principal Office of the Trustee, the Principal Office of the Company, the Principal Office of the Remarketing Agent or the Principal Office of the Paying Agent are located are required or authorized by law or regulation to remain closed or are closed, or (b) on which The New York Stock Exchange is closed.

"Change of Credit Facility" means (a) the delivery of a Credit Facility (or evidence thereof) to the Trustee, (b) the termination of an existing Credit Facility or (c) a combination of (a) and (b), in each case in accordance with Section 4.07 of the Agreement.

"Closing" and "Closing Date" means the date of the first authentication and delivery of fully-executed and authenticated Bonds under this Indenture.

"Code" means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"1954 Code" means the Internal Revenue Code of 1954, as amended. Each reference to a section of the 1954 Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"Company" means Avista Corporation, a corporation organized and existing under the laws of the State of Washington and formerly known as The Washington Water Power Company, or its successors and assigns pursuant to Section 5.01 of the Agreement.

"Costs of Issuance" means any items of expense directly or indirectly payable or reimbursable by the Company and directly or indirectly attributable to the authorization, sale and issuance of the Bonds, including, but not limited to, printing costs; costs of preparation and reproduction of documents; initial fees and charges of the Trustee, the Registrar and the Paying Agent; legal fees and charges, if any; underwriting discount or fees paid to Goldman, Sachs & Co. in connection with the initial offering and sale of the Bonds; the Issuer fees and direct out-of-pocket expenses incurred in issuing and paying the Bonds and loaning the proceeds of the Bonds to the Company (but not including any overhead or administrative costs of the Issuer relating to the Bonds); letter of credit fees and municipal bond insurance premiums, if any, (but such fees or premiums shall not be treated as Costs of Issuance to the extent such fees and premiums are for the payment of the reasonable costs of a transfer of credit risk under the Code and do not reflect indirect payment of additional Costs of Issuance); fees and disbursements of financial advisers, consultants and professionals; and costs of credit ratings.

"Credit Facility" means a facility provided in accordance with Section 4.07 of the Agreement to provide security or liquidity for the Bonds. The term "Credit Facility" includes, by way of example and not of limitation, one or more letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit, first mortgage bonds and other security instruments or liquidity devices. A Credit Facility may have an expiration date earlier than the maturity of the Bonds. The initial Credit Facility is the Insurance Policy.

"Credit Facility Agreement" means any agreement between the Company and the Provider and relating to the Credit Facility then in effect. The initial Credit Facility Agreement is that Insurance Agreement dated as of September 1, 1999 between Ambac and the Company.

"Daily Interest Rate" means the interest rate on the Bonds established pursuant to Section 2.04 hereof

"Daily Interest Rate Period" means each period during which a Daily Interest Rate is in effect.

"Delivery Office of the Trustee" means the office designated as such by the Trustee in writing to the Remarketing Agent, the Registrar, the Issuer and the Company.

"Determination of Taxability" shall have the meaning set forth in Section 8.03 of the Agreement. The Trustee shall give notice of a Determination of Taxability as provided in Section 10.05 hereof.

"DTC" means The Depository Trust Company and its successors and assigns.

"DTC Participants" means those brokers, securities dealers, banks, trust companies, clearing corporations and certain other organizations from time to time for which DTC holds Bonds as securities depository.

"DTC Representation Letter" has the meaning assigned thereto in Section 2.16(c) hereof.

"Due for Payment" has the meaning specified in the Credit Facility.

"Event of Default" means any occurrence or event specified in Section 9.01 hereof

"Executive Officer" means the Mayor of the Issuer.

"Exempt Facilities" means facilities which qualify as "sewage or solid waste disposal facilities" or "air or water pollution control facilities" as defined in the 1954 Code and which qualify as a "project" under the Act.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that the proposed action is not prohibited by the Act or the Indenture or the Loan Agreement, as applicable, and will not adversely affect the Tax-Exempt status of the Bonds.

"Flexible Interest Rate" means, with respect to any Bond, the interest rate or rates associated with such Bond established in accordance with Section 2.07 hereof.

"Flexible Interest Rate Period" means each period comprised of Flexible Segments during which Flexible Interest Rates are in effect.

"Flexible Segment" means, with respect to each Bond bearing interest at a Flexible Interest Rate, the period established in accordance with Section 2.07(a) hereof.

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America, which are not subject to redemption or prepayment prior to stated maturity.

"Indenture" means this Trust Indenture between the Issuer and the Trustee relating to issuance of the Bonds, as amended or supplemented from time to time as permitted herein.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314 and Standard and Poor's "Called Bond Record," 55 Water Street, New York, New York 10041; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Company may designate in a certificate delivered to the Trustee.

"Initial Period" means the period from and including the Closing Date through and including February 1, 2000.

"Insurance Policy" shall mean the municipal bond insurance policy issued by Ambac insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Insurance Trustee" has the meaning specified in the Insurance Policy. The Insurance Policy specifies that the United States Trust Company of New York is initially the Insurance Trustee.

"Interest Account" means the trust account by that name established in the Bond Fund pursuant to Section 6.01 hereof.

"Interest Coverage Rate" means the interest rate specified in a Credit Facility as being the rate used to determine the amount of interest on the Bonds covered by such Credit Facility.

"Interest Payment Date" means:

(a) with respect to any PARS Rate Period, the Business Day immediately following the Initial Period and (i) when used with respect to any Auction Period other than a daily Auction Period, the Business Day immediately following such Auction Period and (ii) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period,

(b) with respect to any Daily or Weekly Interest Rate Period, the first Business Day of each calendar month,

(c) with respect to any Term Interest Rate Period, the first day of the sixth month following the commencement of the Term Interest Rate Period and the first day of each sixth month thereafter, and the day following the last day of a Term Interest Rate Period,

(d) with respect to any Flexible Segment, the Business Day next succeeding the last day of such Flexible Segment, and

(e) with respect to any Rate Period, the day next succeeding the last day thereof.

"Investment Securities" means any of the following obligations or securities, to the extent permitted by law and subject to the provisions of Article VII hereof, on which neither the Company nor any of its subsidiaries is the obligor.

(a) Government Obligations;

(b) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other government-sponsored agencies approved by the Provider;

(d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term

certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(g) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (g) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) General obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(i) Investment agreements approved in writing by the Provider supported by appropriate opinions of counsel with notice to S&P; and

(j) Other forms of investments (including repurchase agreements) approved in writing by the Provider with notice to S&P.

"Issue Date" means the date of the initial authentication and delivery of the Bonds, being September 15, 1999.

"Issuer" means the City of Forsyth, Montana, and its successors, and any political subdivision resulting from or surviving any consolidation or merger to which it or its successors may be a party.

"Loan Payments" means the payments required to be made by the Company pursuant to Section 4.01(a) of the Agreement.

"Mail" means by first-class mail postage prepaid.

"Maturity Date" means October 1, 2032.

"Maximum Interest Rate" means (a) while a Credit Facility is in effect that specifies an Interest Coverage Rate, the lesser of 18% per annum or the Interest Coverage Rate specified in the Credit Facility, and (b) at all other times, 18% per annum.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the Company by notice to the Issuer, the Trustee and the Remarketing Agent.

"Outstanding" or "Bonds Outstanding" or "Outstanding Bonds" means, as of any given date, all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except:

(a) Bonds canceled or purchased by or delivered to the Trustee for cancellation;

(b) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including premium if any, and interest accrued to the due date, of which sufficient moneys are held by the Trustee;

(c) Bonds deemed paid in accordance with Article VIII hereof; and

(d) Bonds in lieu of which others have been authenticated under Section 2.11 (relating to transfer and exchange of Bonds) or Section 2.13 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds) or Bonds paid pursuant to Section 2.13;

provided, however, that if the principal of or interest due on Bonds is paid by the Provider pursuant to the Credit Facility, such Bonds shall remain Outstanding for all purposes of this Indenture until the Provider receives payment therefor as contemplated by the Credit Facility.

Bonds purchased by the Trustee or the Company pursuant to Article III hereof will continue to be Outstanding until the Company has paid or caused to be paid to the Trustee an amount sufficient to provide for the payment of all accrued interest on such Bonds and the Company has directed the Trustee to cancel such Bonds. Bonds purchased pursuant to tenders

and not delivered to the Trustee for payment are not Outstanding, but there will be Outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as contemplated by Section 3.03 hereof.

"Owner" or "Owners" or "Owner of Bonds" or "Owners of Bonds" means the registered owner of any Bond; provided however, when used in the context of the Tax-Exempt status of the Bonds, the term "Owners" shall include a Beneficial Owner.

"PARS" and other definitions relating to PARS Rate Bonds are set forth in Section 1.02 hereto. Reference is also hereby made to Exhibit B for certain provisions relating to Auction Procedures for the PARS Rate Bonds.

"Paying Agent" means any paying agent appointed as provided in Section 10.23 hereof, or any successor thereto.

"Person" means one or more individuals, estates, joint ventures, joint-stock companies, partnerships, associations, corporations, limited liability companies, trusts or unincorporated organizations, and one or more governments or agencies or political subdivisions thereof.

"Plant" means the Colstrip Plant Units 3 and 4 coal-fired steam electric generating plant, located in Rosebud County, Montana.

"Pollution Control Facilities" means those items of machinery, equipment, structures, improvements, other facilities and related property, which have been or will be acquired, constructed and improved at the Plant and are particularly described in Exhibit A to the Agreement, as said Exhibit A may be from time to time amended.

"Principal Account" means the trust account by that name established within the Bond Fund pursuant to Section 6.01 hereof.

"Principal Office of the Company" means the office of the Company specified in or designated pursuant to Section 3.06(c) hereof.

"Principal Office of the Paying Agent" means the office designated in writing by the Paying Agent to the Trustee, the Issuer, the Company, the Registrar, the Provider and the Remarketing Agent.

"Principal Office of the Registrar" means the office or offices designated as such by the Registrar in writing to the Trustee, the Company, the Issuer, the Provider and the Remarketing Agent.

"Principal Office of the Remarketing Agent" means the office designated in writing by the Remarketing Agent to the Trustee, the Issuer, the Company, the Provider, the Registrar and the Paying Agent.

"Principal Office of the Trustee" means the office designated as such by the Trustee in writing to the Remarketing Agent, the Registrar, the Provider, the Issuer and the Company.

"Prior Agreement" means the Loan Agreement between the Issuer and the Company, dated as of October 1, 1989, pursuant to which the Company is obligated to provide for payment of the Prior Bonds.

"Prior Bond Fund" means the bond fund created under Section 4.01(b) of the Prior Indenture from which payments of principal and interest on the Prior Bonds are made.

"Prior Bonds" means the City of Forsyth, Rosebud County, Montana, Pollution Control Revenue Refunding Bonds (The Washington Water Power Company Colstrip Project) Series 1989A which are being refunded pursuant to the Refunding with the proceeds of the Bonds.

"Prior Indenture" means the Indenture of Trust between the Issuer and the Prior Trustee, dated as of October 1, 1989, pursuant to which the Prior Bonds were issued.

"Prior Trustee" means Chemical Bank (which is now known as The Chase Manhattan Bank), as trustee under the Prior Indenture.

"Project" means the Company's 15% undivided interest in the Pollution Control Facilities.

"Project Certificate" means the Company's certificate or certificates, delivered concurrently with the initial authentication and delivery of the Bonds, with respect to certain facts which are within the knowledge of the Company to enable Bond Counsel to determine whether interest on the Bonds is includible in the gross income of the Owners thereof under applicable provisions of the Code.

"Provider" and "Provider of the Credit Facility" means the provider of the Credit Facility. The initial Provider is Ambac.

"Provider Default" means any of the following events:

(a) the failure of the Provider to make any payment required under the Credit Facility when the same shall become due and payable or the Credit Facility shall for any reason cease to be in full force and effect;

(b) a decree or order for relief shall be entered by a court or insurance regulatory authority having jurisdiction over the Provider in an involuntary case under an applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, custodian, trustee, sequestrator (or similar official) of the Provider or for any substantial part of the property of the Provider or ordering the winding-up or liquidation of the affairs of the Provider, and the continuance of any such decree or order shall be unstayed and remain in effect for a period of 60 consecutive days thereafter; or

(c) the Provider shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the Provider shall consent to or acquiesce in the entry of an order for relief in an involuntary case under any such law, or the Provider shall consent to the appointment of or taking of possession by a receiver, liquidator, trustee, custodian, sequestrator (or similar official) of the Provider or for any substantial part of its property, or the Provider shall make a general assignment for the benefit of creditors, or the Provider shall fail generally or admit in writing its inability to pay its debts as such debts become due, or the Provider shall take corporate action in contemplation or furtherance of any of the foregoing.

"Rate" means any PARS Rate, Daily Interest Rate, Weekly Interest Rate, Flexible Interest Rate or Term Interest Rate.

"Rate Period" means any PARS Rate Period, Daily Interest Rate Period, Weekly Interest Rate Period, Flexible Interest Rate Period or Term Interest Rate Period.

"Rating Category" means one of the generic rating categories of either Moody's or S&P, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Rebate Fund" means the trust fund by that name created pursuant to Section 6.01(b) hereof.

"Record Date" means:

(a) with respect to a PARS Rate Period other than a daily Auction Period, the second Business Day preceding an Interest Payment Date therefor and during a daily Auction Period, the last Business Day of the month preceding an Interest Payment Date therefor,

(b) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or Flexible Segment, the Business Day next preceding such Interest Payment Date,

(c) with respect to any Interest Payment Date in respect of any Term Interest Rate Period (except as provided in clause (d) below), the fifteenth day of the month preceding such Interest Payment Date, and

(d) for any Interest Payment Date established pursuant to clause (e) of the definition of "Interest Payment Date" in this Section 1.01 in respect of a Term Interest Rate Period, the Business Day next preceding such Interest Payment Date.

"Redemption Date" means December 1, 1999, the date upon which the Prior Bonds are to be redeemed.

"Refunding" means the series of transactions whereby the Prior Bonds are refunded and cancelled with the proceeds of the Bonds and other money provided by the Company.

"Registrar" means the Trustee or any successor Registrar appointed in accordance with Section 10.22.

"Remarketing Agent" means any Person serving from time to time as Remarketing Agent under this Indenture.

"Remarketing Agreement" means the remarketing agreement between the Company and the Remarketing Agent pursuant to which the Remarketing Agent agrees to act as Remarketing Agent for the Bonds, as such remarketing agreement may be amended and supplemented from time to time.

"Revenues" means all moneys pledged hereunder and paid or payable to the Trustee for the account of the Issuer in accordance with the Agreement and the Credit Facility, and all receipts credited under the provisions of this Indenture against such payments; provided however, that "Revenues" shall not include moneys held by the Trustee in the Rebate Fund or to pay the purchase price of Bonds subject to purchase pursuant to Article III hereof.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Company by notice to the Issuer, the Trustee and the Remarketing Agent.

"Securities Depositories" means The Depository Trust Company, Call Notification Department, 711 Stewart Avenue, Garden City, New York 11530, Telephone: (516) 227-4070, Fax: (516) 227-4190, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Company may designate in a certificate delivered to the Trustee.

"State" means the State of Montana.

"Supplemental Indenture" means any indenture supplemental to this Indenture entered into between the Issuer and the Trustee pursuant to the provisions of Section 12.01 or Section 12.02 hereof.

"Tax Certificate" means the Tax Exemption Certificate and Agreement relating to the Bonds to be executed by the Company, the Issuer and the Trustee on the date of the initial authentication and delivery of the Bonds, as amended and supplemented from time to time.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is not includible in gross income of the owners of such obligations for federal income tax purposes, except for interest on any such

obligations for any period during which such obligations are owned by a person who is a "substantial user" of any facilities financed or refinanced with such obligations or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code, whether or not such interest is includible as an item of tax preference or otherwise includible directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Term Interest Rate" means the interest rate on the Bonds established in accordance with Section 2.06 hereof.

"Term Interest Rate Period" means each period of six months or more during which a Term Interest Rate is in effect.

"Treasury Regulations" means the United States Treasury Regulations dealing with the tax-exempt bond provisions of the Code.

"Trustee" means Chase Manhattan Bank and Trust Company, National Association, as trustee under this Indenture, and any successor Trustee appointed hereunder.

"Trust Estate" means all right, title and interest of the Issuer in and to the Agreement (except for amounts payable to, and the rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 thereof, and the Issuer's right to receive notices, certificates, requests, requisitions, directions and other communications thereunder), including, without limitation, all right, title and interest of the Issuer in the Revenues, all moneys and other obligations which are, from time to time, deposited or required to be deposited with or held or required to be held by or on behalf of the Trustee in trust in the Bond Fund under any of the provisions of this Indenture (except moneys or obligations deposited with or paid to the Trustee for payment or redemption of Bonds that are deemed no longer Outstanding hereunder), the Credit Facility, and all other rights, title and interest which are subject to the lien of this Indenture; provided, however, that the "Trust Estate" shall not include (a) moneys held by the Trustee in the Rebate Fund or to pay the purchase price of Bonds subject to purchase pursuant to Article III hereof or (b) the Plant, the Pollution Control Facilities, the Project or any part thereof.

"Weekly Interest Rate" means the interest rate on the Bonds established in accordance with Section 2.05 hereof.

"Weekly Interest Rate Period" means each period during which a Weekly Interest Rate is in effect.

SECTION 1.02 PARS RATE DEFINITIONS. The terms defined in this Section 1.02 shall have the meanings provided herein for all purposes of this Indenture and the Agreement, unless the context clearly requires otherwise.

"Agent Member" means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder and is identified as such in the Bidder's Master Purchaser's Letter.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means IBJ Whitehall Bank & Trust Company, New York, New York, or any successor auctioneer appointed in accordance with Section 1.10 or 1.11 of Exhibit B hereto.

"Auction Agreement" means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in Exhibit B hereto, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, if the PARS Rate Bonds are in a daily Auction Period, each Business Day, and if the PARS Rate Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such PARS Rate Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the PARS Rate Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the PARS Rate Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the PARS Rate Bonds; and provided, further, that if the PARS Rate Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the PARS Rate Bonds and (y) the Business Day next preceding the final maturity date for the PARS Rate Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the PARS Rate Bonds is February 1, 2000.

"Auction Period" means:

(i) with respect to the PARS Rate Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day,

(ii) with respect to the PARS Rate Bonds in a seven-day mode, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not a Business Day, in which case ending on the Business Day immediately preceding such Tuesday),

(iii) with respect to the PARS Rate Bonds in a 28 day mode, a period of generally 28 days beginning on a Wednesday (or the last day of the prior Auction Period if the Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not a Business Day, in which case on the Business Day immediately preceding such Tuesday),

(iv) with respect to the PARS Rate Bonds in a 35 day mode, a period of generally 35 days beginning on a Wednesday (or the last day of the prior Auction Period if

the Auction Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not a Business Day, in which case on the Business Day immediately preceding such Tuesday), and

(v) with respect to the PARS Rate Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding April 1 or October 1;

provided, however, that if there is a conversion from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not a Business Day, in which case on the next preceding Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period and will end on the Tuesday (unless such Tuesday is not a Business Day, in which case on the next preceding Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not a Business Day, in which case on the next preceding Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

"Auction Procedures" means the procedures for conducting Auctions for the PARS Rate Bonds during a PARS Rate Period set forth in Exhibit B hereto.

"Auction Rate" means for each Tranche of PARS for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate for such Tranche, provided, however, if all of the PARS Rate Bonds are the subject of Submitted Hold Orders, the Minimum PARS Rate for such Tranche and (ii) if Sufficient Clearing Bids do not exist, the Maximum PARS Rate.

"Available Bonds" means the aggregate principal amount of the PARS Rate Bonds that are not the subject of Submitted Hold Orders.

"Bid" shall have the meaning specified in subsection (a) of Section 1.02 of Exhibit B hereto.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer in Exhibit B hereto that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company, with the consent of Goldman, Sachs & Co. as long as Goldman, Sachs & Co. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

"Broker-Dealer Agreement" means an agreement between the Auction Agent and a Broker Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in Exhibit B hereto, as such agreement may from to time be amended or supplemented.

"Broker-Dealer Rate" means a rate of 0.25% with respect to Tranche I PARS and a rate of 0.15% with respect to Tranche II PARS or such different rates as may be established pursuant to a Broker-Dealer Agreement, provided that the Broker-Dealer Rate must be the same in all Broker-Dealer Agreements relating to the PARS.

"Existing Owner" means a Person who has signed a Master Purchaser's Letter and is listed as the beneficial owner of the PARS Rate Bonds in the records of the Auction Agent.

"Hold Order" shall have the meaning specified in subsection (a) of Section 1.02 of Exhibit B hereto.

"Master Purchaser's Letter" means a letter substantially in the form attached to the Broker-Dealer Agreement addressed to a Broker-Dealer, among others, in which a Person agrees, among other things, to offer to purchase, to purchase, to offer to sell and/or to sell the PARS Rate Bonds as set forth in Exhibit B hereto.

"Maximum PARS Rate" means, as of any Auction Date, the Maximum Interest Rate.

"Minimum PARS Rate" means, as of any Auction Date, the lesser of the Maximum Interest Rate and:

(a) for Tranche I PARS, a per annum rate equal to 45% of the PARS Index in effect on such Auction Date; and

(b) for Tranche II PARS, the Minimum PARS Rate for the Tranche I PARS plus the difference between the Broker-Dealer Rate for the Tranche I PARS and the Broker-Dealer Rate for the Tranche II PARS.

"No Auction Rate" means for Tranche I PARS, as of any Auction Date, the lesser of the Maximum PARS Rate and the rate determined by multiplying the Percentage of PARS Index set forth below, based on the Prevailing Rating of the PARS Rate Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the PARS Index:

PREVAILING RATING OF PARS BONDS	PERCENTAGE OF PARS INDEX
AAA/Aaa	65%
AA/Aa	70%
A/A	85%
Below A/A	100%

For Tranche II PARS, the No Auction Rate shall equal the No Auction Rate for Tranche I PARS plus the difference between the Broker-Dealer Rate for the Tranche I PARS and the Broker-Dealer Rate for the Tranche II PARS.

"Order" means a Hold Order, Bid or Sell Order.

"PARS" means the PARS Rate Bonds consisting of Tranche I PARS and Tranche II PARS while they bear interest at the PARS Rates.

"PARS Index" shall have the meaning specified in Section 1.07 of Exhibit B hereto.

"PARS Rate" means the rates of interest to be borne by the PARS Rate Bonds during each Auction Period, not greater than the Maximum Interest Rate, determined in accordance with Section 2.03; provided that all Tranche I PARS shall bear the same PARS Rate, and all Tranche II PARS shall bear the same PARS Rate, which rate for the Tranche II PARS shall be equal to the PARS Rate for Tranche I PARS plus the difference between the Broker-Dealer Rate for Tranche I PARS and the Broker-Dealer Rate for Tranche II PARS.

"PARS Rate Adjustment Date" means the first day of each Auction Period.

"PARS Rate Bonds" means the Bonds during any PARS Rate Period.

"PARS Rate Conversion Date" means the date on which the PARS Rate Bonds convert from an interest rate period other than a PARS Rate Period and begin to bear interest at a PARS Rate.

"PARS Rate Period" means each period during which a PARS Rate is in effect.

"Payment Default" means the failure to make payment of interest on, premium, if any, and principal of the PARS Rate Bonds when due.

"Potential Owner" means any Person, including any Existing Owner, who shall have executed a Master Purchaser's Letter and who may be interested in acquiring a beneficial interest in the PARS Rate Bonds in addition to the PARS Rate Bonds currently owned by such Person, if any,

"Prevailing Rating" means:

(a) AAA/Aaa, if the PARS Rate Bonds shall have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's';

(b) if not AAA/Aaa, AA/Aa if the PARS Rate Bonds shall have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's;

(c) if not AAA/Aaa or AA/Aa, A/A if the PARS Rate Bonds shall have a rating of A- or better by S&P and a rating of A3 or better by Moody's; and

(d) if not AAA/Aaa, AA/Aa or A/A, then below A/A, whether or not the PARS Rate Bonds are rated by any securities rating agency.

For purposes of this definition, S&P's rating categories of "AAA", "AA" and "A-" and Moody's rating categories of "Aaa," "Aa3" and "A3," shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the PARS Rate Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the PARS Rate Bonds are split between two or more of the foregoing categories, the lower rating will determine the Prevailing Rating.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Issuer, the Trustee and each Broker-Dealer.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Issuer which agrees to follow the procedures required to be followed by such securities depository in connection with the PARS Rate Bonds.

"Sell Order" shall have the meaning specified in subsection (a) of Section 1.02 of Exhibit B hereto.

"Submission Deadline" means 1:00 p.m., New York, New York time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York, New York time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Submitted Hold Order" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Submitted Order" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Submitted Sell Order" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of the PARS Rate Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum PARS Rate is not less than the aggregate principal amount of the PARS Rate Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum PARS Rate.

"Tranche" means Tranche I PARS or Tranche II PARS, as the case may be.

"Tranche I PARS" means all PARS which are not Tranche II PARS. Notwithstanding anything to the contrary herein, during a daily Auction Period, all PARS will be Tranche I PARS.

"Tranche II PARS" means all PARS for which the amount of a Submitted Bid equals or exceeds $5,000,000 whether or not the Potential Owner of such PARS is allocated less than $5,000,000 of PARS pursuant to the allocation provisions of Section 1.05 of Exhibit B hereto. Once a PARS becomes a Tranche II PARS, such PARS shall remain a Tranche II PARS until it is sold pursuant to an Auction. Notwithstanding anything to the contrary herein, during a daily Auction Period, all PARS will be Tranche I PARS.

"Winning Bid Rates" means the lowest rate in any Submitted Bid for Tranche I PARS and the lowest rate in any Submitted Bid for Tranche II PARS which, in each case, when added to the applicable Broker-Dealer Rates would be equal to each other and which, if selected by the Auction Agent as the PARS Rates, would cause the aggregate principal amount of PARS Rate Bonds that are the subject of Submitted Bids specifying rates not greater than such rates to be at least equal to the aggregate principal amount of Available Bonds.

SECTION 1.03. RULES OF CONSTRUCTION. Unless the context otherwise requires:

(a) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;

(b) references to Articles and Sections are to the Articles and Sections of this Indenture or the Agreement, as the case may be;

(c) words importing the singular number shall include the plural number and vice versa and words importing the masculine shall include the feminine and vice versa; and

(d) the headings and Table of Contents herein are solely for convenience of reference and shall not constitute a part of this Indenture nor shall they affect its meanings, construction or effect.

ARTICLE II

THE BONDS

SECTION 2.01. AUTHORIZATION AND TERMS OF BONDS.

(a) There is hereby authorized and created under this Indenture an issue of bonds designated as City of Forsyth, Montana, Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999A. The total aggregate principal amount of Bonds that may be issued and Outstanding under this Indenture is expressly limited to $66,700,000 exclusive of Bonds executed and authenticated as provided in Section 2.07 hereof; provided however, that no Bonds shall be delivered hereunder until the Trustee receives a request and authorization of the Issuer signed by the Executive Officer to authenticate and deliver the principal amount of the Bonds therein specified to the purchaser or purchasers therein identified upon payment to the Prior Trustee, for the account of the Issuer, of the sum specified in such request and authorization.

(b) The Bonds shall be issued as registered Bonds, without coupons, in Authorized Denominations and shall all be dated as of the Issue Date. The Bonds shall mature, subject to prior redemption as provided in Article IV hereof, upon the terms and conditions hereinafter set forth, on the Maturity Date. The Bonds shall bear interest at the rate or rates determined as provided in this Article II.

(c) The Bonds shall be numbered consecutively from 1 upward. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless it is registered and authenticated on or prior to the first Interest Payment Date, in which event it shall bear interest from the Issue Date; provided, however, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date. Payment of the interest on any Bond shall be made to the person appearing on the bond registration books of the Registrar as the registered Owner thereof on the Record Date, such interest to be paid by the Paying Agent to such registered Owner, as follows:

(1) in respect of any Bond which is registered in the book-entry system pursuant to Section 2.16 hereof, in immediately available funds by no later than 2:30 p.m., New York, New York time, and

(2) in respect of any Bond which is not registered in the book-entry system pursuant to Section 2.16 hereof, (i) by bank check mailed by first-class mail on the Interest Payment Date, to such Owner's address as it appears on the registration books of the Registrar or at such other address as has been furnished to the Registrar in writing by such Owner, or (ii) during any Rate Period other than a Term Interest Rate Period, in immediately available funds on the Interest Payment Date (by wire transfer or by deposit to the account of the Owner of any such Bond if such account is maintained with

the Paying Agent), but in respect of any Owner of Bonds during a Daily Interest Rate Period, a Weekly Interest Rate Period or a Flexible Interest Rate Period, only to any Owner which owns Bonds in an aggregate principal amount of at least $1,000,000 on the Record Date, according to the written instructions given by such Owner to the Paying Agent or, if no such instructions have been provided as of the Record Date, by bank check mailed by first-class mail on the Interest Payment Date to the Owner at such Owner's address as it appears as of the Record Date on the registration books of the Registrar, except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in whose name any such Bonds are registered as of a special record date to be fixed by the Trustee, notice of which shall be given to such Owners not less than ten (10) days prior thereto.

Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Principal Office of the Paying Agent. Notwithstanding the foregoing, interest on any Bond bearing a Flexible Interest Rate and not registered in the book-entry system pursuant to Section 2.16 hereof shall be paid only upon presentation to the Trustee of the Bond on which such payment is due.

SECTION 2.02. INTEREST RATES AND RATE PERIODS.

(a) General. The Bonds shall bear interest from and including the Issue Date until final payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise, at the lesser of (A) the Maximum Interest Rate or (B) the interest rate or rates determined as provided in this Article II. Such rate or rates shall be effective for the periods set forth in this Article II. During any Rate Period other than a PARS Rate Period or a Term Interest Rate Period, interest on the Bonds shall be computed upon the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed. During any PARS Rate Period, interest on the Bonds shall be computed on the basis of a 360-day year for the actual number of days elapsed except that interest during a six month Auction Period shall be calculated on the basis of a 360-day year composed of twelve 30-day months. During any Term Interest Rate Period, interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Notwithstanding any other provision of this Indenture, it shall not be required that all Bonds bear interest at the same rate, provided that only one Rate Period may apply to the Bonds. Not later than 11:15 a.m. (New York, New York time) on the Business Day immediately following the day on which there has been a change in the rate of interest applicable to the Bonds, the Remarketing Agent shall give notice of such change to the Trustee by telephone, promptly confirmed in writing. The Trustee hereby agrees to give telephonic notice to the Company, promptly confirmed in writing, on each Record Date of the amount of interest to be due and payable on the Bonds on the next succeeding Interest Payment Date.

(b) Rate Periods. The term of the Bonds shall be divided into consecutive Rate Periods during which the Bonds shall bear interest at the PARS Rate, Daily Interest Rate, Weekly Interest Rate, Term Interest Rate or at Flexible Interest Rates. During the initial Rate Period, the Bonds shall bear interest at a PARS Rate.

(c) Initial Period. The Bonds shall bear interest at the PARS Rate of 3.60% per annum for the Initial Period. Immediately following the Initial Period, the Bonds shall bear interest at PARS Rates established for daily Auction Periods unless, prior to the end of the Initial Period, the Company changes the length of the Auction Periods immediately succeeding the Initial Period to a longer Auction Period in accordance with Section 1.09 of Exhibit B hereto.

(d) Determination Conclusive. The determination of each PARS Rate by the Auction Agent and of each Flexible Interest Rate, Daily Interest Rate, Weekly Interest Rate and Term Interest Rate and each Flexible Segment by the Remarketing Agent, as the case may be, shall be conclusive and binding upon such parties, the Trustee, the Paying Agent, the Issuer, the Company, the Owners of the Bonds and any provider of a Credit Facility.

(e) Conversions Subject to Compliance With Credit Facility Agreement. The Bonds shall not be converted from one Rate Period to a different Rate Period unless any applicable conditions precedent to such conversion specified in the Credit Facility Agreement (unless a Provider Default shall have occurred and be continuing) have been satisfied.

SECTION 2.03. PARS RATES; CONVERSIONS TO AND FROM PARS RATE PERIODS.

(a) Determination and Notice of PARS Rates. The PARS Rates to be applicable to the PARS Rate Bonds during each Auction Period shall be determined by the Auction Agent and notice thereof shall be given, all as provided in Exhibit B hereto. Exhibit B hereto is hereby incorporated herein by this reference.

(b) Conversions to PARS Rate Periods. At the option of the Company and subject to Section 2.02(e), all of the Bonds may be converted to a PARS Rate Period from any other Rate Period as follows:

(i) In any such conversion from a Daily Interest Rate Period or a Weekly Interest Rate Period, the PARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Daily Interest Rate Period or the Weekly Interest Rate Period from which the conversion is to be made. In any such conversion from a Term Interest Rate Period, the PARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which a new Term Interest Rate Period would otherwise have commenced, and in any such conversion from a Flexible Interest Rate Period, the PARS Rate Conversion Date shall be the last regularly scheduled Interest Payment Date on which interest is payable for any Flexible Segment theretofore established for the Bonds to be converted.

(ii) The Company shall give written notice of any such conversion to the Auction Agent, any Remarketing Agent, the Issuer, the Trustee and any provider of a Credit Facility not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the PARS Rate Conversion Date and the length of the initial Auction Period. Together with such notice, the Company shall file with the Issuer, the Trustee and any provider of a Credit Facility a Favorable Opinion of Bond Counsel.

No such change to a PARS Rate Period shall become effective unless the Company shall also file, with the Issuer and the Trustee, such a Favorable Opinion of Bond Counsel dated the PARS Rate Conversion Date.

(iii) Not less than fifteen (15) days prior to the PARS Rate Conversion Date the Trustee shall mail a written notice of the conversion to the Owners of all Bonds to be converted; provided, however, that the Trustee shall not mail such written notice if converting from a Flexible Rate Period until it has received a written confirmation from the Remarketing Agent that no Flexible Segment for the Bonds extends beyond the PARS Rate Conversion Date. Such notice shall state that the Bonds to be converted will be subject to mandatory purchase on the PARS Rate Conversion Date at the purchase price determined pursuant to Section 3.02(a) and will specify the time at which Bonds are to be tendered for purchase.

(iv) The PARS Rate for the Auction Period commencing on the PARS Rate Conversion Date shall be determined by the Broker-Dealer before the Conversion Date and shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at the principal amount thereof, plus accrued interest, if any, on the PARS Rate Conversion Date. Such determination shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Auction Agent and the Owners and Beneficial Owners of the Bonds to which such rate will be applicable.

(v) Not later than 5:00 p.m., New York, New York time, on the date of determination of the PARS Rate, the Broker-Dealer shall notify the Trustee and the Company of such rate by telephone confirmed in writing. Not later than 5:00 p.m., New York, New York time, on the next succeeding Business Day, the Trustee shall give notice of such rate to the Issuer and the Auction Agent.

(vi) The Company may revoke its election to effect a conversion of the interest rate on any Bonds to a PARS Rate by giving written notice of such revocation to the Issuer, the Trustee, the Remarketing Agent, the Auction Agent, the Broker-Dealer and any provider of a Credit Facility at any time prior to the setting of the PARS Rate by the Broker-Dealer.

(c) Conversions From PARS Rate Periods. At the option of the Company and subject to Section 2.02(e), all of the Bonds may be converted from a PARS Rate Period to a Daily Interest Rate Period, a Weekly Interest Rate Period, a Term Interest Rate Period or a Flexible Interest Rate Period, as follows:

(i) If the PARS are in an Auction Period other than the daily Auction Period, the conversion date shall be the second regularly scheduled Interest Payment Date following the final Auction Date. If the PARS are in a daily Auction Period, the conversion date shall be the next regularly scheduled Interest Payment Date.

(ii) The Company shall give written notice of any such conversion to the Issuer, the Trustee, the Auction Agent, the Broker-Dealer and any provider of a Credit

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Facility not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the conversion date and the Rate Period to which the conversion will be made and, if applicable, the length of any Term Rate Period. Together with such notice, the Company shall file with the Issuer and the Trustee a Favorable Opinion of Bond Counsel regarding such conversion. No conversion shall become effective unless the Company shall also file, with the Issuer, the Trustee and any provider of a Credit Facility, such a Favorable Opinion of Bond Counsel dated the date of such conversion.

(iii) Not less than twenty (20) days prior to the conversion date, the Trustee shall mail a written notice of the conversion to the Owners of all Bonds to be converted, specifying the Rate Period to which the Bonds are being converted, stating that the Bonds to be converted will be subject to mandatory purchase on the conversion date at the purchase price determined pursuant to Section 3.02(a), specifying the time at which Bonds are to be tendered for purchase, stating any conditions precedent to such conversion and stating that, if such conditions are not satisfied, the Bonds will continue to bear interest at PARS Rates but that the Bonds will be subject to mandatory purchase in accordance with the last paragraph of Section 2.08 hereof.

SECTION 2.04. DAILY INTEREST RATE; ADJUSTMENT TO DAILY INTEREST RATE PERIOD.

(a) Determination of Daily Interest Rate. During each Daily Interest Rate Period, the Bonds shall bear interest at the Daily Interest Rate determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate shall be the rate determined by the Remarketing Agent (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Daily Interest Rate for any day by 10:00 a.m., New York, New York time, the Daily Interest Rate for such day shall be the same as the Daily Interest Rate for the immediately preceding day. The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Daily Interest Rate on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to Daily Interest Rate Period. At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent may, subject to Section 2.02(e), elect that the Bonds shall bear interest at a Daily Interest Rate. Such notice (A) shall specify the effective date of such adjustment to a Daily Interest Rate, which shall be (1) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period, and (3) in the case of an adjustment from a

Flexible Interest Rate Period, the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.07(d) hereof; provided, however, that if prior to the Company's mailing of notice of such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Daily Interest Rate Period shall not precede such redemption date; and (B) if the adjustment is from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment.

(c) Notice of Adjustment to Daily Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to a Daily Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Daily Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to a Daily Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date of such Daily Interest Rate Period, (C) that such Bonds are subject to mandatory purchase on such effective date, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

SECTION 2.05. WEEKLY INTEREST RATE; ADJUSTMENT TO WEEKLY INTEREST RATE PERIOD.

(a) Determination of Weekly Interest Rate. During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate determined by the Remarketing Agent no later than the first day of such Weekly Interest Rate Period and thereafter no later than Tuesday of each week during such Weekly Interest Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Interest Rate shall be determined by the Remarketing Agent no later than the Business Day next preceding such Tuesday. The Weekly Interest Rate shall be the rate determined by the Remarketing Agent (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Weekly Interest Rate for any period, the Weekly Interest Rate shall be the same as the Weekly Interest Rate in effect for the immediately preceding week. The first Weekly Interest Rate determined for each Weekly Interest Rate Period shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on each Wednesday and ending on the next succeeding Tuesday, unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on such last day. The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Weekly Interest Rate on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to Weekly Interest Rate Period. The Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent may, subject to Section 2.02(e), at any time elect that the Bonds shall bear interest at a Weekly Interest Rate. Such notice (A) shall specify the effective date of such adjustment to a Weekly Interest Rate, which shall be (1) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (3) in the case of an adjustment from a Flexible Interest Rate Period the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.07(d); provided however, that if prior to the Company's making such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Weekly Interest Rate Period shall not precede such redemption date; and (B) if the adjustment is from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment.

(c) Notice of Adjustment to Weekly Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to a Weekly Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Weekly Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to a Weekly Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date of such Weekly Interest Rate Period, (C) that such Bonds are subject to mandatory purchase on such effective date, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

SECTION 2.06. TERM INTEREST RATE; ADJUSTMENT TO TERM INTEREST RATE PERIOD.

(a) Determination of Term Interest Rate. During each Term Interest Rate Period, the Bonds shall bear interest at the Term Interest Rate determined by the Remarketing Agent on a Business Day selected by the Remarketing Agent, but not more than 60 days prior to and not later than the effective date of such Term Interest Rate Period. The Term Interest Rate shall be the rate determined by the Remarketing Agent on such date as being the lowest rate (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) which would enable the Remarketing Agent to sell the Bonds on the effective date of such Term Interest Rate Period at a price (without regard to accrued interest) equal to 100% of the principal amount thereof, provided however, that if, for any reason, a Term Interest Rate for any Term Interest Rate Period shall not be determined or become effective, then (A) in the event the then-current Term Interest Rate Period is for one year or less, the Rate Period for the Bonds shall automatically convert to a Daily Interest Rate Period and (B) in the event the current Term Interest Rate Period is for more than one year, the Rate Period for the Bonds shall automatically adjust to a Term Interest Rate Period of one year and one day; provided, however, that if the last day of any successive Term

Interest Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Interest Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Interest Rate Period would end after the day prior to the final maturity date of the Bonds, the next succeeding Rate Period shall be a Term Interest Rate Period ending on the day prior to the final maturity date of the Bonds; provided further that in the case of clause (B) above, if the Company delivers to the Trustee a Favorable Opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds will adjust to a Daily Interest Rate Period. If the Daily Interest Rate for the first day of a Daily Interest Rate Period described in clause (A) above is not determined as provided in Section 2.04(a) hereof the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer). If a Term Interest Rate for any such Term Interest Rate Period described in clause (B) above is not determined as described in the first sentence of this Section 2.06(a), the Term Interest Rate for such Term Interest Rate Period shall be 110% of the most recent One-Year Note Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer). The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Term Interest Rate on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to or Continuation of Term Interest Rate Period. At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent, may, subject to Section 2.02(e), elect that the Bonds shall bear, or continue to bear, interest at a Term Interest Rate and shall determine the duration of the Term Interest Rate Period during which such Bonds shall bear interest at such Term Interest Rate. At the time the Company so elects an adjustment to or continuation of a Term Interest Rate Period, the Company may specify two or more consecutive Term Interest Rate Periods and, if the Company so specifies, shall specify the duration of each such Term Interest Rate Period as provided in this paragraph (b). Such notice shall specify the effective date of each Term Interest Rate Period, which shall be (A) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (B) in the case of an adjustment from a Term Interest Period to a Term Interest Period of a different duration or the continuation of a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (C) in the case of an adjustment from a Flexible Interest Rate Period the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.07(d) hereof; provided, however, that if prior to the Company's making such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the

effective date of such Term Interest Rate Period shall not precede such redemption date. In addition, such notice (x) shall specify the last day of such Term Interest Rate Period (which shall be either the day preceding the date of final maturity of the Bonds or a day which both immediately precedes a Business Day and is at least 180 days after such effective date), and (y) unless such Term Interest Rate Period immediately succeeds a Term Interest Rate Period of the same duration and is subject to the same optional redemption rights under Section 4.02(b)(iv) hereof, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment.

If, by 15 days prior to the end of the then-current Term Interest Rate Period, the Trustee shall not have received notice of the Company's election that the Bonds shall bear interest at a PARS Rate, a Daily Interest Rate, a Weekly Interest Rate, a Term Interest Rate or a Flexible Interest Rate, (A) in the event the then-current Term Interest Rate Period is for one year or less, the Rate Period for the Bonds shall automatically convert to a Daily Interest Rate Period and (B) in the event the current Term Interest Rate Period is for more than one year, the Rate Period for the Bonds shall automatically adjust to a Term Interest Rate Period of one year and one day, provided however, that if the last day of any successive Term Interest Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Interest Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Interest Rate Period would end after the day prior to the Maturity Date, the next succeeding Rate Period shall be a Term Interest Rate Period ending on the day prior to the Maturity Date; provided however, that in the case of clause (B) above, if the Company delivers to the Trustee a Favorable Opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds will adjust to a Daily Interest Rate Period. If the Daily Interest Rate for the first day of a Daily Interest Rate Period described in clause (A) above is not determined as provided in Section 2.04(a) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer). If a Term Interest Rate for any such Term Interest Rate Period described in clause (B) above is not determined as described in the first sentence of this Section 2.06(a), the Term Interest Rate for such Term Interest Rate Period shall be 110% of the most recent One-Year Note Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer).

At the same time that the Company elects to have the Bonds bear interest at a Term Interest Rate or to continue to bear interest at a Term Interest Rate, the Company may also elect that such Term Interest Rate Period shall be automatically renewed for successive Term Interest Rate Periods each having the same duration as the Term Interest Rate Period so specified; provided however, that such election must be accompanied by a Favorable Opinion of Bond Counsel with respect to such continuing automatic renewals of such Term Interest Rate Period. If such election is made, no Favorable Opinion of Bond Counsel shall be required in connection

with the commencement of each successive Term Interest Rate Period determined in accordance with such election. Further, at the same time that the Company elects to have the Bonds bear interest at a Term Interest Rate or continue to bear interest at a Term Interest Rate, subject to the provisions of Section 4.02(c) hereof the Company may also specify to the Trustee optional redemption prices and periods different from those set out in Section 4.02 hereof during the Term Interest Rate Period(s) with respect to which such election is made.

(c) Notice of Adjustment to or Continuation of Term Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to or continuation of a Term Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Term Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to, or continue to be, a Term Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date and the last date of such Term Interest Rate Period, (C) that the Term Interest Rate for such Term Interest Rate Period will be determined not later than the effective date thereof (D) how such Term Interest Rate may be obtained from the Remarketing Agent, (E) the Interest Payment Dates after such effective date, (F) that, during such Term Interest Rate Period, the Owners of such Bonds will not have the right to tender their Bonds for purchase, (G) the redemption provisions that will apply to the Bonds during such Term Interest Rate Period, and (H) that, except when the new Term Interest Rate Period is preceded by a Term Interest Rate Period of the same duration, such Bonds are thereby subject to mandatory purchase on such effective date, the procedures for such mandatory purchase, the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

SECTION 2.07. FLEXIBLE INTEREST RATE; ADJUSTMENT TO FLEXIBLE INTEREST RATE PERIOD.

(a) Determination of Flexible Segments and Flexible Interest Rates. During each Flexible Interest Rate Period, each Bond shall bear interest during each Flexible Segment for such Bond at the Flexible Interest Rate for such Bond as described herein. Each Flexible Segment and Flexible Interest Rate for each Bond shall be the Flexible Segment and Flexible Interest Rate determined by the Remarketing Agent. Each Flexible Segment for any Bond shall be a period of not less than one nor more than 270 days (subject to any limitations set forth in the Remarketing Agreement), determined by the Remarketing Agent to be, in its judgment, the period which, together with all other Flexible Segments for the Bonds then outstanding, is likely to result in the lowest overall net interest expense on the Bonds; provided however, that (A) any such Bond purchased on behalf of the Company and remaining unsold in the hands of the Remarketing Agent as of the close of business on the effective date of the Flexible Segment for such Bond shall have a Flexible Segment of one day or, if such Flexible Segment would not end on a day immediately preceding a Business Day, a Flexible Segment of more than one day ending on the day immediately preceding the next Business Day and (B) each Flexible Segment shall end on a day which immediately precedes a Business Day and no Flexible Segment shall extend beyond the final maturity date of the Bonds.

The Flexible Interest Rate for each Flexible Segment for each Bond shall be the rate determined by the Remarketing Agent (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under

then prevailing market conditions) no later than the first day of such Flexible Segment (and in the case of a Flexible Segment of one day, no later than 12:30 p.m. New York, New York time, on such date) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If a Flexible Segment or a Flexible Interest Rate for a Flexible Segment is not determined or effective, the Flexible Segment for such Bond shall be a Flexible Segment of one day, and the interest rate for such Flexible Segment of one day shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as most comparable to The Bond Buyer). The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Flexible Interest Rate and Flexible Segment on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to Flexible Interest Rate Period. At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent, may, subject to Section 2.02(e), elect that the Bonds shall bear interest at Flexible Interest Rates. Such notice (A) shall specify the effective date of the Flexible Interest Rate Period during which such Bonds shall bear interest at Flexible Interest Rates, which shall be (1) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee), and (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period, provided however, that if prior to the Company's making such election any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Flexible Interest Rate Period shall not precede such redemption date; and (B) in the case of an adjustment from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment. During each Flexible Interest Rate Period commencing on the date so specified (provided that the Favorable Opinion of Bond Counsel described in clause (B) above, if required, is reaffirmed as of such date) and ending on the day immediately preceding the effective date of the next succeeding Rate Period, each Bond shall bear interest at a Flexible Interest Rate during each Flexible Segment for such Bond.

(c) Notice of Adjustment to Flexible Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to a Flexible Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Flexible Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to Flexible Interest Rates (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date of such Flexible Interest Rate Period, (C) that such Bonds are thereby subject to mandatory purchase on the effective date of such Flexible Interest Rate Period, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a

percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

(d) Adjustment From Flexible Interest Rates. At any time during a Flexible Interest Rate Period, the Company may elect that the Bonds shall no longer bear interest at Flexible Interest Rates and shall instead bear interest as otherwise permitted under this Indenture. The Company shall notify the Issuer, the Trustee, the Paying Agent and the Remarketing Agent of such election by Mail and shall specify the Rate Period to follow with respect to such Bonds upon cessation of the Flexible Interest Rate Period and instruct the Remarketing Agent to determine Flexible Segments of such duration that, as soon as possible, all Flexible Segments shall end on the same date, not earlier than the day that would permit the notices required by Sections 2.03(b)(iii), 2.04(c), 2.05(c) or 2.06(c), as applicable, to be given, and such date shall be the last day of the then current Flexible Interest Rate Period. Upon the establishment of such Flexible Segments, the day next succeeding the last day of all such Flexible Segments shall be the effective date of the Rate Period elected by the Company. The Remarketing Agent, promptly upon the determination thereof, shall give written notice of such last day and such effective dates to the Issuer, the Company, the Trustee and the Paying Agent.

SECTION 2.08. RESCISSION OF ELECTION. Notwithstanding anything herein to the contrary, the Company may rescind any election by it to adjust to or, in the case of a Term Interest Rate Period, continue a Rate Period pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof prior to the effective date of such adjustment or continuation or, as provided in Section 2.03(b)(vi) hereof, prior to the setting of the PARS Rate by the Broker-Dealer, by giving written notice thereof to the Issuer, the Trustee, the Paying Agent, any Auction Agent and any Remarketing Agent prior to such effective date. At the time that the Company gives notice of rescission, it may also elect in such notice to continue the Rate Period then in effect; provided however, that if the Rate Period then in effect is a Term Interest Rate Period, the subsequent Term Interest Rate Period shall not be of a different duration than the Term Interest Rate Period then in effect unless the Company provides to the Trustee a Favorable Opinion of Bond Counsel prior to the expiration of the then-current Term Interest Rate Period. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Bonds of the change in or continuation of Rate Periods pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof, then such notice of change in or continuation of Rate Periods shall be of no force and effect and shall not be given to the Owners. If the Trustee receives notice of such rescission after the Trustee has given notice to the Owners of the Bonds pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof of an adjustment from any Rate Period other than a Term Interest Rate Period in excess of one year or if an attempted adjustment from one Rate Period (other than a Term Interest Rate Period in excess of one year) to another Rate Period does not become effective for any other reason, and if the Company does not elect to continue the Rate Period then in effect, then the Rate Period for the Bonds shall automatically adjust to or continue in a Daily Interest Rate Period and the Trustee shall promptly give notice thereof to the Owners of the Bonds. If the Trustee receives notice of such rescission after the Trustee has given notice to the Owners of the Bonds pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof of an adjustment from a Term Interest Rate Period in excess of one year to another Rate Period (including a Term Interest Rate Period of a different duration), or if an attempted adjustment from

a Term Interest Rate Period in excess of one year to another Rate Period (including a Term Interest Rate Period of a different duration) does not become effective for any reason and if the Company does not elect to continue the Rate Period then in effect, then the Rate Period for the Bonds shall continue to be a Term Interest Rate Period of the same duration as the immediately preceding Term Interest Rate Period, subject to the second proviso contained in Section 2.06(a); provided that if the Company delivers to the Trustee a Favorable Opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds shall be as directed by the Company in writing. If a Daily Interest Rate for the first day of any Daily Interest Rate Period to which a Rate Period is adjusted under this Section 2.08 is not determined as provided in Section 2.04(a) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent or if the Remarketing Agent is the Trustee, determined by the Company, as most comparable to The Bond Buyer). The Trustee shall promptly give written notice of each such automatic adjustment to a Rate Period pursuant to this Section 2.08 to the Owners in the form provided in Section 2.04(c) hereof.

Notwithstanding the rescission by the Company of any notice to adjust to or from or continue a Rate Period, if notice has been given to Owners pursuant to Section 2.03(b)(iii), Section 2.03(c)(iii), Section 2.04(c), Section 2.05(c), Section 2.06(c) or Section 2.07(c), the Bonds shall be subject to mandatory purchase as specified in such notice.

SECTION 2.09. FORM OF BONDS. The Bonds and the certificate of authentication to be executed thereon shall be in substantially the form attached hereto as Exhibit A, with such appropriate variations, omissions and insertions as are permitted or required by this Indenture. Upon adjustment to a Term Interest Rate Period, the form of Bond may include a summary of the mandatory and optional redemption provisions to apply to the Bonds during such Term Interest Rate Period, or a statement to the effect that the Bonds will not be optionally redeemed during such Term Interest Rate Period; provided that the Registrar shall not authenticate such a revised Bond form prior to receiving a Favorable Opinion of Bond Counsel that such Bond form satisfies the requirements of the Act and of this Indenture and that authentication thereof will not adversely affect the Tax-Exempt status of the Bonds.

SECTION 2.10. EXECUTION OF BONDS. The Bonds shall be signed in the name and on behalf of the Issuer with the manual or facsimile signature of its Mayor and attested by the manual or facsimile signature of the City Clerk. The Bonds shall then be delivered to the Registrar for authentication by it. In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed or attested shall have been authenticated or delivered by the Registrar or issued by the Issuer, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, shall be as binding upon the Issuer as though those who signed and attested the same had continued to be such officers of the Issuer. Also, any Bond may be signed on behalf of the Issuer by such persons as on the actual date of the execution of such Bond shall be the proper officers although on the nominal date of such Bond any such person shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in the form set forth in Exhibit A hereto, manually executed by an authorized signatory of the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Upon authentication of any Bond, the Registrar shall set forth on such Bond (1) the date of such authentication and (2) in the case of a Bond bearing interest at a Flexible Interest Rate and not registered in the book-entry system pursuant to Section 2.16 hereof, such Flexible Interest Rate, the last day of the applicable Flexible Segment, the number of days comprising such Flexible Segment and the amount of interest to accrue during such Flexible Segment.

SECTION 2.11. TRANSFER AND EXCHANGE OF BONDS. Registration of any Bond may, in accordance with the terms of this Indenture, be transferred at the Principal Office of the Registrar, upon the books of the Registrar required to be kept pursuant to the provisions of Section 2.12 hereof, by the Person in whose name it is registered, in person or by its attorney duly authorized in writing, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. The Registrar shall require the payment by the Owner of the Bond requesting such transfer of any tax or other governmental charge required to be paid and there shall be no other charge to any Owners for any such transfer. Whenever any Bond shall be surrendered for registration of transfer, the Issuer shall execute and the Registrar shall authenticate and deliver a new Bond or Bonds of the same tenor and of Authorized Denominations. Except with respect to Bonds purchased pursuant to Sections 3.01 and 3.02 hereof, no registration of transfer of Bonds shall be required to be made for a period of fifteen (15) days next preceding the date on which the Trustee Mails any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required, except the unredeemed portion of any Bond being redeemed in part.

Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor and of Authorized Denominations. The Registrar shall require the payment by the Owner of the Bond requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange. Except with respect to Bonds purchased pursuant to Section 3.01 and Section 3.02 hereof, no exchange of Bonds shall be required to be made for a period of fifteen (15) days next preceding the date on which the Trustee Mails notice of redemption, nor shall any exchange of Bonds called for redemption be required, except the unredeemed portion of any Bond being redeemed in part.

The Issuer, the Registrar, the Trustee and any agent of the Issuer, the Registrar or the Trustee may treat the person in whose name the Bond is registered as the owner thereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not the Bond be overdue, and neither the Issuer, the Registrar, the Trustee, any paying agent nor any such agent shall be affected by notice to the contrary.

SECTION 2.12. BOND REGISTER. The Registrar will keep or cause to be kept at its Principal Office sufficient books for the registration and the registration of transfer of the Bonds, which

shall at all times, during regular business hours, be open to inspection by the Issuer, the Trustee, the Provider, the Remarketing Agent and the Company; and, upon presentation for such purpose, the Registrar shall under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, Bonds as hereinbefore provided.

SECTION 2.13. BONDS MUTILATED, LOST, DESTROYED OR STOLEN. If any Bond shall become mutilated, the Issuer, upon the request and at the expense of the Owner of said Bond, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Registrar of the Bond so mutilated. Every mutilated Bond so surrendered to the Registrar shall be canceled by it and delivered to the Company. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Issuer, the Company and the Registrar, and if such evidence shall be satisfactory to them and indemnity satisfactory to them shall be given, the Issuer, at the expense of the Owner, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the Registrar may pay the same without surrender thereof). The Issuer may require payment of a reasonable fee for each new Bond issued under this Section and payment of the expenses which may be incurred by the Issuer and the Registrar. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Issuer whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

To the extent permitted by law, the provisions of this Section are exclusive and shall preclude all other rights and remedies with respect to the replacement or payment of mutilated, lost, destroyed or stolen Bonds.

SECTION 2.14. BONDS; LIMITED OBLIGATIONS. The Bonds, together with premium, if any, and interest thereon, shall be limited and not general obligations of the Issuer not constituting or giving rise to a pecuniary liability of the Issuer nor any charge against its general credit or taxing powers nor an indebtedness of or a loan of credit thereof within the meaning of any provision or limitation of the State Constitution or laws, shall be payable solely from the Revenues and other moneys pledged therefor under this Indenture, and shall be a valid claim of the respective Owners thereof only against the Bond Fund, the Revenues and other moneys held by the Trustee as part of the Trust Estate. The Issuer shall not be obligated to pay the purchase price of Bonds from any source.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR GENERAL OBLIGATION OF THE ISSUER, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER, THE STATE OR OF ANY SUCH POLITICAL SUBDIVISION, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES AND PROCEEDS PROVIDED THEREFOR. THE ISSUER SHALL NOT BE OBLIGATED TO PAY THE SAME NOR INTEREST THEREON EXCEPT FROM THE REVENUES AND PROCEEDS PLEDGED THEREFOR, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE ISSUER, THE STATE OR OF ANY POLITICAL

SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS.

No recourse shall be had for the payment of the principal of, or premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in this Indenture, the Bonds, the Agreement or any other related documents, against any past, present or future officer, elected official agent or employee of the Issuer, or any incorporator, officer, director or member of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, officer, director or member as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of any of the Bonds.

SECTION 2.15. DISPOSAL OF BONDS. Upon payment of the principal of, premium, if any, and interest represented thereby or transfer or exchange pursuant to Section 2.11 hereof or, replacement pursuant to Section 2.13 hereof, any Bond shall be canceled and such Bond shall be disposed of by the Registrar in accordance with its customary procedures and the Registrar shall provide evidence satisfactory to the Company of such cancellation and disposition.

SECTION 2.16. BOOK-ENTRY SYSTEM.

(a) Unless otherwise determined by the Issuer, the Bonds shall be issued in the form of a single certificated fully-registered Bond, registered in the name of Cede & Co., as nominee of DTC, or any successor nominee (the "Nominee"). The actual owners of the Bonds (the "Beneficial Owners") will not receive physical delivery of Bond certificates except as provided herein. Except as provided in paragraph (d) below, all of the outstanding Bonds shall be so registered in the registration books kept by the Registrar, and the provisions of this Section shall apply thereto.

(b) With respect to Bonds registered on the registration books kept by the Registrar in the name of the Nominee, the Issuer, the Company, the Paying Agent, the Registrar, the Trustee and the Remarketing Agent shall have no responsibility or obligation to any DTC Participant or the Beneficial Owners. Without limiting the immediately preceding sentence, the Issuer, the Company, the Paying Agent, the Registrar, the Trustee and the Remarketing Agent shall have no responsibility or obligation to DTC, any DTC Participant or any Beneficial Owner with respect to (1) the accuracy of the records of DTC, the Nominee or any DTC Participant with respect to any ownership interest in the Bonds, (2) the delivery by DTC or any DTC Participant of any notice with respect to the Bonds, including any notice of redemption, or (3) the payment to any DTC Participant or Beneficial Owner of any amount with respect to principal or purchase price of, or premium, if any, or interest on, the Bonds. The Issuer, the Company, the Paying Agent, the Registrar, the Trustee and the Remarketing Agent may treat and consider the person in whose name each Bond is registered in the registration books kept by the Registrar as the owner and absolute owner of such Bond for the purpose of payment of principal purchase price, premium and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such

Bond, and for all other purposes whatsoever. The Paying Agent shall pay all principal of and premium if any, and interest on, the Bonds only to or upon the order of the respective Owners, as shown in the registration books kept by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, and premium, if any, and interest on, the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the registration books kept by the Registrar, shall receive a certificated Bond evidencing the obligation of the Issuer to make payments of principal, premium, if any, and interest pursuant to this Indenture.

(c) The Issuer, the Paying Agent, the Remarketing Agent and the Trustee shall execute and deliver to DTC a letter of representations in customary form with respect to the Bonds in book-entry form (the "DTC Representation Letter"), but such DTC Representation Letter shall not in any way limit the provisions of the foregoing paragraph (b) or in any other way impose upon the Issuer, the Trustee or the Paying Agent any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Registrar. The Trustee, the Remarketing Agent and the Paying Agent shall take all action necessary for all representations of the Issuer in the DTC Representation Letter with respect to the Trustee, the Remarketing Agent and the Paying Agent to be complied with at all times, including but not limited to, the giving of all notices required under the DTC Representation Letter. The Trustee and Paying Agent are hereby authorized by the Issuer to enter into the DTC Representation Letter.

(d) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee and discharging its responsibilities with respect thereto under applicable law. The Issuer, with the consent of the Company, may terminate the services of DTC with respect to the Bonds. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute securities depository is appointed to undertake the functions of DTC hereunder, the Issuer, at the expense of the Company, is obligated to deliver Bond certificates to the Beneficial Owners of such Bonds, as described in this Indenture, and such Bonds shall no longer be restricted to being registered in the registration books kept by the Registrar in the name of the Nominee, but may be registered in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

(e) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal or purchase price of or, premium if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the DTC Representation Letter. Owners shall have no lien or security interest in any rebate or refund paid by DTC to the Paying Agent which arises from the payment by the Paying Agent of principal of, or premium, if any, or interest on, the Bonds in immediately available funds to DTC.

(f) So long as any Bond is held in book-entry form a Beneficial Owner (through its DTC Participant) shall give notice to the Trustee to elect to have its Bonds purchased, and shall effect delivery of such Bonds by causing such DTC Participant to transfer its interest in the Bonds equal

to such Beneficial Owner's interest on the records of DTC to the Trustee's participant account with DTC. The requirement for physical delivery of the Bonds in connection with any purchase pursuant to Section 3.01 and Section 3.02 hereof shall be deemed satisfied when the ownership rights in the Bonds are transferred by DTC Participants on the records of DTC to the Trustee's participant account.

SECTION 2.17. PAYMENTS PURSUANT TO THE CREDIT FACILITY. So long as the Credit Facility shall be in effect, the Trustee, Registrar and Paying Agent shall observe the following provisions respecting the Credit Facility:

(a) If on the Business Day prior to each Interest Payment Date and prior to each date upon which the principal of the Bonds becomes due on the Maturity Date or pursuant to a mandatory redemption pursuant to Section 4.03 hereof, the Trustee has received actual notice that sufficient amounts will not be on deposit in the Bond Fund on such Interest Payment Date, Maturity Date or redemption date to pay the principal of or interest on the Bonds then maturing or subject to such mandatory redemption, or if the Trustee determines on any Interest Payment Date or on any date upon which the principal of the Bonds becomes due on the Maturity Date or pursuant to a mandatory redemption effected pursuant to Section 4.03 hereof that there are not sufficient funds in the Bond Fund to pay the principal of or interest on the Bonds coming due on such date, the Trustee shall so notify the Provider. Such notice shall specify the amount of the anticipated or actual deficiency, as the case may be, the Bonds to which such deficiency is applicable and whether such Bonds will be or are deficient as to principal or interest, or both. The Insurance Policy provides, in effect, that if the Trustee has not so notified the Provider at least one Business Day prior to an Interest Payment Date or prior to any date upon which the principal of the Bonds becomes due on the Maturity Date or pursuant to a mandatory redemption effected pursuant to Section 4.03 hereof, the Provider will make payments of principal or interest, or both, due on the Bonds on or before the first Business Day next following the date on which the Provider shall have received notice of nonpayment from the Trustee. Otherwise, such payments shall be made on such Interest Payment Date, Maturity Date or redemption date.

(b) The Trustee shall, after giving notice to the Provider as provided in (a) above, make available to the Provider and, at the Provider's direction, to the Insurance Trustee, the registration books of the Issuer maintained by the Registrar, and all records relating to the Bond Fund and any other funds and accounts maintained under this Indenture.

(c) The Trustee or the Registrar shall provide the Provider and the Insurance Trustee with a list of Owners entitled to receive principal or interest payments from the Provider under the terms of the Credit Facility, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners entitled to receive full or partial interest payments from the Provider and (ii) to pay principal upon Bonds surrendered or, if a book-entry system is in effect, ownership interests in Bonds transferred to the Insurance Trustee by the Owners or Beneficial Owners entitled to receive full or partial principal payments from the Provider.

(d) The Trustee shall, at the time it provides notice to the Provider pursuant to (a) above, notify the Owners entitled to receive the payment of principal thereof or interest thereon from the Provider (i) as to the fact of such entitlement, (ii) that the Provider will remit to them all or a part of the interest payments next coming due upon proof of the entitlement of such Owners to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Provider, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Provider) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, and (iv) that should they be entitled to receive partial payment of principal from the Provider, they must surrender their Bonds for payment thereon first to the Paying Agent, which shall note on such Bonds the portion of the principal previously paid by the Paying Agent, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal thereof. At any time that there is a DTC book-entry system in effect for the Bonds, the notice required pursuant to this Section 2.17 shall specify that, in lieu of surrendering the Bonds, the beneficial ownership interests to receive payment of such principal or interest shall be transferred on the records of DTC to the order of the Insurance Trustee.

(e) In the event that the Trustee or Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent shall, within five Business Days after it has notice that such payment has been deemed a preferential transfer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Provider to the extent of such recovery if sufficient funds are not otherwise available, and the Paying Agent shall furnish to the Provider its records evidencing the payments of principal of and interest on the Bonds which have been made by the Paying Agent and subsequently recovered from Owners and the dates on which such payments were made.

(f) In addition to those rights granted the Provider under this Indenture, the Provider shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Credit Facility, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Registrar shall note the Provider's rights as subrogee on the registration books of the Issuer maintained by the Registrar upon receipt from the Provider of proof of the payment of interest thereon to the Owners, and (ii) in the case of subrogation as to claims for past due principal, the Registrar shall note the Provider's rights as subrogee on the registration books of the Issuer maintained by the Registrar upon surrender of the Bonds by the Owners thereof, together with proof of the payment of principal thereof.

SECTION 2.18. CHANGE OF CREDIT FACILITY.

(a) The Trustee shall give notice by Mail of a proposed Change of Credit Facility pursuant to Section 4.07(a) of the Agreement to the Owners prior to a date upon which the Owners can give the requisite notice to tender their Bonds on or prior to the effective date of such Change of Credit facility. Such notice shall (a) describe the proposed Change of Credit Facility (subject to the Company's ability to rescind its election to make such Change of Credit Facility), (b) state the effective date of such Change of Credit Facility, and (c) state such other matters as the Company may direct.

(b) The Trustee shall give notice by Mail of a proposed Change of Credit Facility pursuant to Section 4.07(b) of the Agreement to the Owners not less than 15 days prior to the effective date of such Change of Credit Facility. Such notice shall (a) describe the proposed Change of Credit Facility (subject to the Company's ability to rescind its election to make such Change of Credit Facility), (b) state the effective date of such Change of Credit Facility, (c) state that such Bonds are subject to mandatory purchase on or before such effective date pursuant to Section 3.02(a)(iii), (d) describe the procedures for such mandatory purchase and the date thereof, (e) state the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), (f) state that the Owners of such Bonds do not have the right to retain their Bonds on such effective date, and (g) state such other matters as the Company may direct.

SECTION 2.19. CUSIP NUMBERS. The Issuer in issuing the Bonds may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices of redemption as a convenience to Owners; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Bonds, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer or the Company will promptly notify the Trustee and the Registrar of any change in any CUSIP number(s).

Neither the Issuer, the Registrar nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond, check, advice of payment or redemption notice, and any such document may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Issuer, the Registrar nor the Trustee shall be liable for any inaccuracy in such matters.

ARTICLE III

PURCHASE AND REMARKETING OF BONDS

SECTION 3.01. OWNER'S OPTION TO TENDER FOR PURCHASE.

(a) Daily Interest Rate Period. During any Daily Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner

thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (i) delivery to the Trustee at the Delivery Office of the Trustee, by no later than 11:00 a.m., New York, New York time, on such Business Day, of an irrevocable written notice or irrevocable notice by telephone (promptly confirmed by telecopy or other writing) which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond and the date on which the same shall be purchased, and (ii) subject to Section 2.16(f) hereof and the last paragraph of Section 3.03 hereof, delivery of such Bond tendered for purchase to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (i) above.

(b) Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (i) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable written notice or an irrevocable notice by telephone (promptly confirmed by telecopy or other writing), by 5:00 p.m., New York, New York time, on any Business Day, which states the principal amount of such Bond and the certificate number (if the Bonds are not then held in book-entry form) and the date on which the same shall be purchased, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee, and (ii) subject to Section 2.16(f) hereof and the last paragraph of Section 3.03 hereof, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (i) above.

(c) Term Interest Rate Period. Any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on the first day of any Term Interest Rate Period which is preceded by a Term Interest Rate Period of equal duration at a purchase price equal to 100% of the principal amount thereof upon (x) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable notice in writing by 5:00 p.m., New York, New York time, on any Business Day not less than fifteen days before the purchase date, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond to be purchased, and (y) subject to Section 2.16(f) hereof and the last paragraph of Section 3.03 hereof delivery of such Bond to the Trustee at the Delivery Office of

the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m. New York, New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (x) above.

(d) If any Bond is to be purchased in part pursuant to Section 3.01(a), Section 3.01(b) or Section 3.01(c) hereof, the amount so purchased and the amount not so purchased must each be an Authorized Denomination.

SECTION 3.02. MANDATORY PURCHASE.

(a) The Bonds shall be subject to mandatory purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date described below, upon the occurrence of any of the events stated below:

(i) as to any Bond, on the effective date of any change in a Rate Period with respect to such Bond, other than the effective date of a Term Interest Rate Period which was preceded by a Term Interest Rate Period of the same duration;

(ii) as to each Bond in a Flexible Interest Rate Period, on the Business Day next succeeding the last day of any Flexible Segment with respect to such Bond; or

(iii) as to any Bond, on the date set forth in any notice of a Change of Credit Facility given by the Company pursuant to Section 4.07(b) of the Agreement, which shall be a date that is on or before the effective date of such Change of Credit Facility, provided, however, that if the Bonds are then subject to optional redemption pursuant to Section 4.02(b)(iv), the purchase price shall include any premium that would have been payable upon such redemption had the Bonds been redeemed.

(b) When Bonds are called for redemption pursuant to Section 4.02(b)(iv) hereof and if the Company gives notice to the Trustee on or before the Business Day prior to the redemption date that the Company elects to have the Bonds purchased in lieu of redemption, all or any portion of the Bonds that the Company elects to purchase shall be subject to mandatory purchase on such redemption date at a purchase price equal to 100% of the principal amount thereof plus an amount equal to any premium that would have been payable upon such redemption had the Bonds been redeemed. If the Bonds are purchased in lieu of redemption on or prior to the applicable Record Date, the purchase price shall include accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the amount specified in the preceding sentence). If the Bonds are purchased in lieu of redemption after such Record Date, the purchase price shall not include accrued interest.

SECTION 3.03. PAYMENT OF PURCHASE PRICE. If Bonds are to be purchased pursuant to Section 3.01 or Section 3.02, the Trustee shall pay the purchase price of such Bonds but solely

from the following sources in the order of priority indicated, and the Trustee shall not have any obligation to use funds from any other source:

(a) proceeds of the remarketing and sale of such Bonds pursuant to Section 3.04 hereof;

(b) moneys furnished to the Trustee pursuant to Article VIII hereof, such moneys to be applied only to the purchase of Bonds which are deemed to be paid in accordance with Article VIII hereof; and

(c) any other moneys furnished by or on behalf of the Company to the Trustee for purchase of the Bonds; provided, however, that funds for the payment of the purchase price of Bonds which are deemed to be paid in accordance with Article VIII hereof shall be derived only from the sources described in Section 3.03(a) and Section 3.03(b), in such order of priority.

Subject to Section 2.16 hereof, the Registrar shall register new Bonds as directed by the Remarketing Agent and make such Bonds available for delivery on the date of such purchase. Payment of the purchase price of any Bond shall be made in immediately available funds for Bonds in a Flexible, Daily, Weekly or Term Interest Rate Period (subject to Section 2.16(f) hereof) in each case only upon presentation and surrender of such Bond to the Trustee.

If moneys sufficient to pay the purchase price of Bonds to be purchased pursuant to Section 3.01 or Section 3.02 hereof shall be held by the Trustee on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased and shall be purchased according to the terms hereof, for all purposes of this Indenture, irrespective of whether or not such Bonds shall have been delivered to the Trustee, and the former Owner of such Bonds shall have no claim under this Indenture or otherwise, for any amount due with respect to such Bonds other than the purchase price thereof.

SECTION 3.04. REMARKETING OF BONDS BY REMARKETING AGENT.

(a) Whenever any Bonds are subject to purchase pursuant to Section 3.01 or Section 3.02 hereof, the Remarketing Agent shall offer for sale and use its best efforts to remarket such Bonds to be so purchased, any such remarketing to be made at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all of the Bonds.

(b) If the Remarketing Agent is remarketing the Bonds after the date notice has been given of the redemption of such Bonds pursuant to Section 4.02 or 4.03 hereof (and prior to the redemption date thereof), the Remarketing Agent shall provide to the Trustee the names of the Persons to whom the Bonds are being remarketed so that the Trustee can provide the notice required by Section 3.05(a) hereof.

(c) By 11:30 a.m., New York, New York time, on the date the Trustee receives notice from any Owner in accordance with Section 3.01(a) hereof, and promptly, but in no event later than 11:30 a.m., New York, New York time, on the Business Day following the day on which the Trustee receives notice from any Owner of its demand to have the Trustee purchase Bonds pursuant to Section 3.01(b) or Section 3.01(c) hereof, the Trustee shall give facsimile or telephonic notice, confirmed in writing thereafter, to the Remarketing Agent specifying the principal amount of Bonds which such Owner has demanded to have purchased and the date on which such Bonds are demanded to be purchased.

SECTION 3.05. LIMITS ON REMARKETING. Any Bond purchased pursuant to Sections 3.01 and 3.02 hereof from the date notice is given of redemption pursuant to Sections 4.02 and 4.03 hereof through the date of such redemption shall not be remarketed unless the Person buying such Bonds has been given notice in writing by the Trustee that such Bonds are to be redeemed. Furthermore, in addition to the requirements of the preceding sentence, if the Bonds are subject to redemption pursuant to Section 4.03 hereof, the Person buying such Bonds shall also be given notice in writing by the Trustee that a Determination of Taxability has occurred and that such Bonds are subject to mandatory redemption pursuant to Section 4.03 hereof.

SECTION 3.06. DELIVERY OF BONDS; DELIVERY OF PROCEEDS OF REMARKETING Sale.

(a) DELIVERY OF BONDS.

Bonds purchased pursuant to Section 3.01 or Section 3.02 hereof shall be delivered as follows:

(i) Delivery of Remarketed Bonds. Subject to Section 2.16 hereof, Bonds remarketed by the Remarketing Agent pursuant to Section 3.04 hereof shall not be delivered to any Person until it shall have paid the purchase price therefor.

(ii) Delivery of Bonds Purchased by the Company. Bonds delivered to the Trustee and purchased with moneys furnished by the Company shall at the direction of the Company, be (A) held by the Trustee for the account of the Company, (B) delivered to the Trustee for cancellation or (C) delivered to the Company.

(iii) Delivery of Defeased Bonds. Bonds purchased by the Remarketing Agent with moneys described in Section 3.03(b) hereof shall not be remarketed and shall be delivered to the Trustee for cancellation.

(b) REGISTRATION OF DELIVERED BONDS. Bonds delivered as provided in this Section 3.06 shall be registered in the manner directed by the recipient thereof.

(c) NOTICE OF FAILED REMARKETING. In the event that any Bonds are not remarketed, the Remarketing Agent shall notify the Company by telephone, promptly confirmed in writing by telecopy, and the Trustee in writing (which may be delivered by telecopy) no later than 1:30 p.m., New York, New York time, on any day on which Bonds are delivered or deemed delivered for purchase under this Indenture, of the aggregate principal amount of Bonds not

remarketed on such date and the aggregate principal amount of Bonds remarketed on such date but for which the purchase price has not been paid (which Bonds for purposes of this Indenture shall be considered to not be remarketed), as follows:

(i) Such notice to the Company shall be given to the Principal Office of the Company, as follows:

Avista Corporation
1411 East Mission Avenue
Spokane, Washington 99220
Attention: Treasurer
Telephone: (509) 495-8045
Telecopy: (509) 495-4879

The Company may, by notice given in accordance with Section 13.08 hereof to the Remarketing Agent and the Trustee, designate any further or different addresses to which subsequent such notices may be given.

(ii) Such notice to the Trustee shall be given to the Trustee, as follows:

Chase Manhattan Bank and Trust Company, National Association
101 California Street, Suite 2725
San Francisco, California 94111
Attention: Corporate Trust Administration
Telephone: (415) 954-9518
Telecopy: (415) 693-8850

The Trustee may, by notice given in accordance with Section 13.08 hereof to the Company and the Trustee, designate any further or different addresses to which subsequent such notices may be given.

(d) PROCEEDS OF SALE HELD FOR SELLER OF BONDS. Moneys deposited with the Trustee for the purchase of Bonds pursuant to Section 3.01 and Section 3.02 hereof shall be held uninvested in trust in one or more separate accounts and shall be paid to the former Owners of such Bonds upon presentation thereof. The Trustee shall notify the Company in writing within five days after the date of purchase if the Bonds have not been delivered, and if so directed by the Company, shall give notice by Mail to each Owner whose Bonds are deemed to have been purchased pursuant to Section 3.01 and Section 3.02 hereof stating that interest on such Bonds ceased to accrue on the date of purchase and that moneys representing the purchase price of such Bonds are available against delivery thereof at the Delivery Office of the Trustee. Bonds deemed purchased pursuant to Section 3.01 and Section 3.02 hereof shall cease to accrue interest on the date of purchase. The Trustee shall hold moneys deposited for the purchase of Bonds without liability for interest thereon, for the benefit of the former Owner of the Bond on such date of purchase, who shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on its part under this Indenture or on, or with respect to, such Bond. Any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds within six months

after such date of purchase shall be paid by the Trustee to the Company upon the written direction of the Authorized Company Representative, and thereafter the Trustee shall have no further liability with respect to such moneys and the former Owners shall be entitled to look only to the Company for payment, and then only to the extent of the amount so repaid to the Company, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

SECTION 3.07. NO REMARKETING SALES AFTER CERTAIN EVENTS. Anything in this Indenture to the contrary notwithstanding, there shall be no sales of Bonds pursuant to a remarketing in accordance with Section 3.04 hereof, if (a) there shall have occurred and not have been cured or waived an Event of Default described in Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof of which an authorized officer in the Principal Office of the Remarketing Agent and an authorized officer of the corporate trust department of the Trustee have actual knowledge or (b) the Bonds have been declared to be immediately due and payable pursuant to Section 9.02 hereof and such declaration has not been rescinded pursuant to Section 9.02(d) hereof.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. REDEMPTION OF BONDS GENERALLY.

(a) The Bonds are subject to redemption if and to the extent the Company is entitled or required to make and makes a prepayment pursuant to Article VIII of the Agreement. Except as specifically provided in Section 4.03 hereof, the Trustee shall not give notice of any redemption under Section 4.05 hereof unless the Company has so directed in accordance with Section 8.01 of the Agreement; provided that the Trustee may require prepayment of Loan Payments under Section 4.01 of the Agreement in the case of mandatory redemption.

(b) If the Bonds are to be redeemed in part, they shall only be redeemed in the principal amount of $100,000 or any integral multiple thereof unless such redemption occurs during a Term Interest Rate Period which extends to and includes the Maturity Date, in which case the Bonds may be redeemed in the principal amount of $5,000 or any integral multiple thereof.

SECTION 4.02. REDEMPTION UPON OPTIONAL PREPAYMENT.

(a) The Bonds shall be redeemed in whole or in part, and if in part by lot, at any time at a redemption price equal to 100% of the principal amount thereof (except as otherwise provided in Section 4.02(a)(v) below) plus accrued interest to the redemption date, upon receipt by the Trustee of a written notice from the Company stating that any of the following events has occurred and that the Company therefore intends to exercise its option to prepay the payments due under the Agreement in whole or in part pursuant to Section 8.01 of the Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

(i) the Company shall have determined or concurred in a determination that the continued operation of the Plant is impracticable, uneconomical or undesirable for any reason; or

(ii) all or substantially all of the Plant shall have been condemned or taken by eminent domain;

(iii) the operation of the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body;

(iv) unreasonable burdens or excessive liabilities shall have been imposed upon the Company in respect of all or a part of the Pollution Control Facilities or the Plant including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement, as well as any statute or regulation enacted or promulgated after the date of the Agreement that prevents the Company from deducting interest in respect of the Agreement for federal income tax purposes; or

(v) all or substantially all of the Project shall be transferred or sold to any entity other than an affiliate of the Company; provided, however, that in the case of a redemption under this Section 4.02(a)(v), the redemption price of the Bonds shall be equal to 101% of the principal amount thereof, plus accrued interest to the date of redemption, unless a smaller or no premium would be due upon optional redemption of the Bonds as described in Section 4.02(b) below.

(b) The Bonds shall be subject to redemption in whole, or in part by lot, prior to their maturity, following receipt by the Issuer and the Trustee of a written notice from the Company pursuant to Section 8.01 of the Agreement and upon prepayment of the Loan Payments at the option of the Company, as follows:

(i) While the Bonds bear interest at a PARS Rate, the Bonds shall be subject to such redemption on the date next succeeding the last day of any PARS Rate Period at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(ii) While the Bonds bear interest at a Flexible Interest Rate or Rates, each Bond shall be subject to such redemption on the day next succeeding the last day of each Flexible Segment for such Bond at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(iii) While the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Bonds shall be subject to such redemption on any Business Day at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

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(iv) While the Bonds bear interest at a Term Interest Rate, the Bonds shall be subject to such redemption (1) on the day next succeeding the last day of each Term Interest Rate Period at a redemption price equal to the principal amount of the Bonds being redeemed plus accrued interest, if any, to the redemption date and (2) either (A) on the redemption dates and at the redemption prices specified by the Company pursuant to Section 4.02(c) hereof or (B) during the redemption periods specified below, in each case in whole or in part, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

LENGTH OF TERM INTEREST RATE PERIOD	REDEMPTION DATES AND PRICES
Greater than or equal to 11 years	At any time on or after the first day of the calendar month following the tenth anniversary of the effective date at 102% declining 1% annually to 100%
Less than 11 years	Not redeemable

(c) With respect to any Term Interest Rate Period, the Company may specify in the notice required by Section 2.06(b) hereof redemption provisions, prices and periods other than those set forth above; provided however, that such notice shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such changes in redemption dates and prices.

SECTION 4.03. REDEMPTION UPON MANDATORY PREPAYMENT. The Bonds shall be subject to mandatory redemption in whole on any date from amounts which are to be prepaid by the Company under Section 8.03 of the Agreement, at a redemption price equal to 100% of the principal amount thereof plus interest accrued, if any, to the redemption date within one hundred eighty (180) days following a Determination of Taxability; provided that if, in the opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

SECTION 4.04. SELECTION OF BONDS FOR REDEMPTION. If less than all of the Bonds are called for redemption the Trustee shall select the Bonds or any given portion thereof to be redeemed, from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall (to the extent practicable) assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that, following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations. The Trustee shall promptly notify the Issuer and the Company in writing of the numbers of the Bonds or portions thereof so selected for redemption.

SECTION 4.05. NOTICE OF REDEMPTION.

(a) The Trustee, for and on behalf of the Issuer, shall give notice of the redemption of any Bond by Mail, postage prepaid, not less than fifteen (15) nor more than sixty (60) days prior to the redemption date, to the Owner of such Bond at the address shown on the registration books of the Registrar on the date such notice is mailed and to any Auction Agent, any Remarketing Agent, any Provider, Moody's, S&P, the Securities Depositories and one or more of the Information Services. Notice of redemption shall also be given to DTC in accordance with the DTC Representation Letter. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address or addresses of the Paying Agent), the source of the funds to be used for such redemption, the principal amount, the CUSIP number (if any) of the maturity and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon, if any, to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notwithstanding the foregoing, failure by the Trustee to give notice pursuant to this Section 4.05 to any one or more of the Information Services or Securities Depositories or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Failure to give any required notice of redemption as to any particular Bond shall not affect the validity of the call for redemption of any Bonds in respect of which no such failure has occurred.

(b) With respect to any notice of optional redemption of Bonds in accordance with Section 4.02 hereof, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of Article VIII hereof, such notice may state that such redemption is conditioned upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed. In the event such moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such redemption will not take place.

(c) The Trustee shall also provide the notice with respect to the Bonds to be redeemed as required by Section 3.05(a) hereof.

SECTION 4.06. PARTIAL REDEMPTION OF BONDS. Upon surrender of any Bond redeemed in part only, the Registrar shall exchange the Bond redeemed for a new Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the Bond not redeemed. In the event of any partial redemption of a Bond which is registered in the name of Cede & Co., DTC may elect to make a notation on the Bond certificate which reflects the date and amount of the reduction in the principal amount of said Bond in lieu of surrendering the Bond certificate to the Registrar for exchange. The Issuer, the Company and the

Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

SECTION 4.07. NO PARTIAL REDEMPTION AFTER DEFAULT. Anything in this Indenture to the contrary notwithstanding, if there shall have occurred and be continuing an Event of Default (other than an Event of Default described in Section 9.0l(d) hereof) of which an authorized officer of the corporate trust department of the Trustee has actual knowledge, there shall be no redemption of less than all of the Bonds at the time Outstanding.

SECTION 4.08. PAYMENT OF REDEMPTION PRICE. For the redemption of any of the Bonds, the Issuer shall cause to be deposited in the Bond Fund, solely out of the Revenues and any other moneys constituting the Trust Estate, an amount sufficient to pay the principal of, and premium, if any, and interest to become due on, the Bonds called for redemption on the date fixed for such redemption. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Bond Fund or any fund in Article VIII hereof available for and used on such redemption date for payment of the principal of, and premium, if any, and accrued interest on, the Bonds to be redeemed. The Trustee shall apply amounts as and when required available therefor in the Bond Fund to pay principal of, and premium, if any, and interest on, the Bonds.

SECTION 4.09. EFFECT OF REDEMPTION. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee if such redemption was conditioned thereon, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, without interest accrued on any funds held to pay such redemption price accruing after the date of redemption.

All Bonds fully redeemed pursuant to the provisions of this Article IV shall be canceled upon surrender thereof to the Paying Agent, which shall upon the written request of the Issuer, deliver to the Company a certificate evidencing such cancellation.

ARTICLE V

GENERAL COVENANTS

SECTION 5.01. PAYMENT OF BONDS.

(a) The Issuer covenants that it will promptly pay or cause to be paid the principal of, and premium, if any, and interest on, every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in the Bonds, provided that the principal, premium if any, and interest are payable by the Issuer solely from the Revenues, and nothing in the Bonds or

this Indenture shall be considered as assigning or pledging any other funds or assets of the Issuer other than the Trust Estate.

(b) Each and every covenant made herein by the Issuer is predicated upon the condition that the Issuer shall not in any event be liable for the payment of the principal of, or premium, if any, or interest on the Bonds, or for the payment of the purchase price of the Bonds, or the performance of any pledge, mortgage, obligation or agreement created by or arising under this Indenture or the Bonds from any property other than the Trust Estate; and, further, that neither the Bonds nor any such obligation or agreement of the Issuer shall be construed to constitute an indebtedness or a lending of credit of the Issuer within the meaning of any constitutional or statutory provision whatsoever, or constitute or give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing power.

(c) For the payment of interest on the Bonds, the Issuer shall cause to be deposited in the Interest Account on or prior to each Interest Payment Date, solely out of Revenues and other moneys pledged therefor, an amount sufficient to pay the interest to become due on such Interest Payment Date. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Interest Account available on the Interest Payment Date for the payment of the interest on the Bonds.

(d) For payment of the principal of the Bonds upon redemption, maturity or acceleration of maturity, the Issuer shall cause to be deposited in the Principal Account, on or prior to the redemption date or the maturity date (whether accelerated or not) of the Bonds, solely out of Revenues and other moneys pledged therefor, an amount sufficient to pay the principal of the Bonds. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Principal Account available on the redemption date or the maturity date (whether accelerated or not) for the payment of the principal of the Bonds.

SECTION 5.02. PERFORMANCE OF COVENANTS BY ISSUER; AUTHORITY; DUE EXECUTION. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto. The Issuer represents that it is duly authorized under the Constitution and laws of the State to issue the Bonds and to execute this Indenture, to execute and deliver the Agreement, to assign the Agreement and amounts payable thereunder, and to pledge the amounts hereby pledged in the manner and to the extent herein set forth. The Issuer further represents that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the Owners thereof are and will be valid and binding limited obligations of the Issuer.

The Issuer shall fully cooperate with the Trustee and with the Owners of the Bonds to the end of fully protecting the rights and security of the Owners of any Bonds.

The Issuer represents that it now has, and covenants that it shall use its best efforts to maintain, complete and lawful authority and privilege to enter into and perform its obligations under this Indenture and the Agreement, and covenants that it will at all times use its best efforts

to maintain its existence or provide for the assumption of its obligations under this Indenture and the Agreement.

Except to the extent otherwise provided in this Indenture, the Issuer shall not enter into any contract or take any action by which the rights of the Trustee or the Owners of the Bonds may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as may be reasonably required to carry out the purposes of this Indenture.

SECTION 5.03. IMMUNITIES AND LIMITATIONS OF RESPONSIBILITY OF ISSUER; REMEDIES. Without limiting the obligation of the Issuer to perform its covenants and obligations hereunder:

(a) The Issuer shall be entitled to the advice of counsel and shall be wholly protected as to action taken or omitted in good faith in reliance on such advice.

(b) The Issuer may rely conclusively on any communication or other document furnished to it hereunder and reasonably believed by it to be genuine.

(c) The Issuer shall not be liable for any action.

(i) taken by it in good faith and reasonably believed by it to be within its discretion or powers hereunder, or

(ii) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers hereunder, or

(iii) taken by it pursuant to any direction or instruction by which it is governed hereunder, or

(iv) omitted to be taken by it by reason of the lack of any direction or instruction required hereby for such action; nor shall it be responsible for the consequences of any error of judgment made by it in good faith.

(d) The Issuer shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any person, except its own officers and employees.

(e) When any payment or consent or other action by it is called for hereby, it may defer such action pending receipt of such evidence (if any) as it may require in support thereof.

(f) The Issuer shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity satisfactory to it is furnished for any expense or liability to be incurred thereby.

(g) As provided herein and in the Agreement, the Issuer shall be entitled to reimbursement from the Company for its expenses reasonably incurred or advances

reasonably made, with interest at a rate per annum equal to the rate of interest then in effect and as announced by The Chase Manhattan Bank as its prime lending rate for domestic commercial loans in New York, New York, in the exercise of its rights or the performance of its obligations hereunder, to the extent that it acts without previously obtaining indemnity.

(h) No permissive right or power to act which it may have shall be construed as a requirement to act, and no delay in the exercise of a right or power shall affect its subsequent exercise of that right or power.

SECTION 5.04. DEFENSE OF ISSUER'S RIGHTS. The Issuer agrees that the Trustee may defend the Issuer's rights to the payments and other amounts due under the Agreement, for the benefit of the Owners of the Bonds, against the claims and demands of all persons whomsoever. The Issuer covenants that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming to the Trustee all and singular the rights assigned hereby and the amounts pledged hereby to the payment of the principal of, and premium, if any, and interest on, the Bonds. The Issuer covenants and agrees that, except as herein and in the Agreement provided, it will not sell, convey, assign, pledge, encumber or otherwise dispose of any part of the Trust Estate.

SECTION 5.05. RECORDING AND FILING; FURTHER INSTRUMENTS.

(a) The Issuer and the Trustee shall cooperate with the Company in causing to be filed and recorded all documents, notices and financing statements related to this Indenture and to the Agreement which are necessary, as required by law, in order to perfect the lien of this Indenture in the Trust Estate. Concurrently with the execution and delivery of the Bonds and in accordance with the requirements of Section 5.04 of the Agreement, the Company shall cause to be delivered to the Trustee an opinion of counsel (i) stating that, in the opinion of such counsel either (A) such action has been taken, as set forth therein, with respect to the recording and filing of such documents, notices and financing statements as is necessary to perfect the lien of this Indenture in the Trust Estate, or (B) no such action is necessary to perfect such lien, and (ii) stating the requirements for the filing of continuation statements or other documentation or notices in order to maintain the perfection of the lien of this Indenture in the Trust Estate.

(b) The Issuer shall upon the reasonable request of the Trustee, from time to time execute and deliver such further instruments and take such further action as may be reasonable (and consistent with the Bond Documents) and as may be required to effectuate the purposes of this Indenture or any provisions hereof, provided however, that no such instruments or actions shall pledge the general credit or the full faith of the Issuer.

SECTION 5.06. RIGHTS UNDER AGREEMENT. The Agreement, a duly executed counterpart, of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, including provisions that, subsequent to the issuance of the Bonds and prior to the payment in full or provision for payment thereof in accordance with the provisions hereof, the

Agreement (except as expressly provided therein) may not be effectively amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, as provided in Article XII hereof, and reference is hereby made to the Agreement for a detailed statement of such covenants and obligations of the Company, and the Issuer agrees that the Trustee in its name or (to the extent required by law) in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement, whether or not the Issuer is in default hereunder. The Issuer shall cooperate with the Trustee in enforcing the obligations of the Company to pay or cause to be paid all amounts payable by the Company under the Agreement.

SECTION 5.07. ARBITRAGE AND TAX COVENANTS. The Issuer will not take or fail to take any action that would impair the exclusion of interest on the Bonds from gross income for federal income tax purposes. The Issuer further will not knowingly act or fail to act so as to cause the proceeds of the Bonds, any moneys derived, directly or indirectly, from the use or investment thereof and any other moneys on deposit in any fund or account maintained in respect of the Bonds (whether such moneys were derived from the proceeds of the sale of the Bonds or from other sources) to be used in a manner which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code, or which would otherwise adversely affect the Tax-Exempt status of the Bonds.

SECTION 5.08. NO DISPOSITION OF TRUST ESTATE. Except as permitted by this Indenture, the Issuer shall not sell lease, pledge, assign or otherwise encumber or dispose of its interest in the Trust Estate and will promptly pay (but only from the Revenues) or cause to be discharged, or make adequate provision to discharge, any lien or charge on any part thereof not permitted hereby.

SECTION 5.09. ACCESS TO BOOKS. All books and documents in the possession of the Issuer relating to the Revenues and the Trust Estate shall at all reasonable times be open to inspection by such accountants or other agencies as the Trustee may from time to time designate.

SECTION 5.10. SOURCE OF PAYMENT OF BONDS. The Bonds are not general obligations of the Issuer but are limited obligations payable solely from the Revenues. The Revenues have been pledged and assigned as security for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, and premium, if any, and interest on, the Bonds, except as may be otherwise expressly authorized in this Indenture or the Agreement.

SECTION 5.11. CREDIT FACILITY. The Trustee and the Paying Agent shall take action under the Credit Facility, in accordance with the terms and subject to the coverage thereof, to the extent necessary in order to cause amounts in respect of the principal of and interest on the Bonds to be payable by the Provider pursuant to the Credit Facility to the Owners of the Bonds. The Trustee shall not sell, assign, transfer or surrender the Credit Facility (a) except to a successor Trustee hereunder or (b) except in connection with a Change of Credit Facility.

ARTICLE VI

DEPOSIT OF BOND PROCEEDS; FUND AND ACCOUNTS; REVENUES

SECTION 6.01. CREATION OF BOND FUND AND ACCOUNTS; REBATE FUND.

(a) There is hereby created by the Issuer and ordered established a separate Bond Fund, to be held by the Trustee and to be designated "City of Forsyth, Montana, Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999A Bond Fund" and therein a Principal Account and an Interest Account.

(b) For purposes of complying with the requirements of Section 148 of the Code, the Rebate Fund is hereby established with the Trustee to make arbitrage payments as contemplated by the Tax Certificate. The Trustee shall deposit such amounts into the Rebate Fund and pay such amounts from the Rebate Fund as it shall be directed by an Authorized Company Representative. The Trustee shall have no responsibility for calculating the amount of arbitrage rebate with respect to the Bonds.

SECTION 6.02. DISPOSITION OF BOND PROCEEDS AND CERTAIN OTHER MONEYS. In accordance with the direction contained in Section 3.03 of the Agreement, simultaneously with the initial authentication and delivery of the Bonds: (i) there shall be deposited with the Prior Trustee in the Prior Bond Fund and used for the purpose of the Refunding of the Prior Bonds, an amount equal to $66,700,000, representing the principal proceeds received from the sale of the Bonds, and (ii) there shall be deposited into the Interest Account the accrued interest on the Bonds, if any, from the Issue Date to the date of the initial authentication and delivery of the Bonds.

SECTION 6.03. DEPOSITS INTO THE BOND FUND; USE OF MONEYS IN THE BOND FUND.

(a) The Trustee shall deposit into the Principal Account of the Bond Fund (i) payments made by the Company pursuant to the Agreement in respect of principal of or premium payable on the Bonds, and (ii) any other moneys required by this Indenture or the Agreement to be deposited into the Principal Account of the Bond Fund.

(b) The Trustee shall deposit into the Interest Account of the Bond Fund (i) payments made by the Company pursuant to the Agreement in respect of interest on the Bonds, and (ii) any other moneys required by this Indenture or the Agreement to be deposited into the Interest Account of the Bond Fund.

(c) Except as provided in Sections 6.04, 6.05, 9.10 and 10.04 and Article VIII hereof, moneys in the Principal Account of the Bond Fund shall be used solely for the payment of principal of and premium if any, on the Bonds as the same shall become due and payable at maturity, upon redemption or upon acceleration of maturity.

(d) Except as provided in Sections 6.04, 6.05, 9.10 and 10.04 and Article VIII hereof, moneys in the Interest Account of the Bond Fund shall be used solely to pay interest on the Bonds when due.

SECTION 6.04. BONDS NOT PRESENTED FOR PAYMENT OF PRINCIPAL. In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof or the acceleration of maturity or in the event that any interest thereon is unclaimed, if moneys sufficient to pay such Bonds or interest are held by the Trustee, the Trustee shall segregate and hold such moneys in trust (but shall not invest such moneys), without liability for interest thereon, for the benefit of Owners of such Bonds who shall except as provided in the following paragraph, thereafter be restricted exclusively to such fund or funds for the satisfaction of any claim of whatever nature on their part under this Indenture or relating to said Bonds or interest. Such Bonds which shall not have been so presented for payment shall be deemed paid for any purposes of this Indenture.

Any moneys which the Trustee shall segregate and hold in trust for the payment of the principal of or interest on any Bond and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid by the Trustee to the Company upon request of an Authorized Company Representative. After the payment of such unclaimed moneys to the Company, the Owner of such Bond shall look only to the Company for payment, and then only to the extent of the amount so repaid to the Company, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money, and all liability of the Issuer and the Trustee with respect to such moneys shall thereupon cease.

Neither the Company nor the Issuer shall have any right, title or interest in or to any moneys held by the Trustee pursuant to this Section. The Trustee shall not be liable to the Issuer or any Owner for interest on funds held by it for the payment and discharge of the principal, interest, or premium on any of the Bonds to any Owner.

SECTION 6.05. PAYMENT TO THE COMPANY. After the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Issuer to the Owners shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Section 6.04 and Article VIII hereof, and all fees, expenses and other amounts payable to the Registrar, the Paying Agent, the Trustee, the Remarketing Agent, the Provider and the Issuer pursuant to any provision of this Indenture or the Credit Facility Agreement shall have been paid, any moneys remaining in the Bond Fund and the Rebate Fund shall be paid to the Company upon request of an Authorized Company Representative, other than any unclaimed moneys held pursuant to Section 6.04. The Trustee may conclusively rely on certificates of the Remarketing Agent and the Provider as to the amount of any fees, expenses and other amounts owing to them.

ARTICLE VII

INVESTMENTS

SECTION 7.01. INVESTMENT OF MONEYS IN FUNDS. Subject to Section 5.07 hereof and the provisions of the Tax Certificate, moneys in the Bond Fund and the Rebate Fund may be invested and reinvested in Investment Securities. Such investments shall be made by the Trustee as specifically directed and designated by the Company in a certificate of, or telephonic advice

promptly confirmed by a certificate of, an Authorized Company Representative. Each such certificate or telephonic advice shall contain a statement that each investment so designated by the Company constitutes an Investment Security and can be made without violation of any provision hereof or of the Agreement or of the Tax Certificate. The Trustee shall be entitled to rely on each such certificate or advice and shall incur no liability for making any such investment so designated or for any loss, fee, tax or other charge incurred in selling such investment or for any action taken pursuant to this Section that causes the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code. No investment instructions shall be given by the Company if the investments to be made pursuant thereto would violate any covenant set forth in Section 5.07 hereof or the provisions of the Agreement or the Tax Certificate. The Trustee may act as principal or agent in the acquisition or disposition of investments. The Trustee shall not be responsible for any loss on any investment made in accordance herewith.

SECTION 7.02. CONVERSION OF INVESTMENT TO CASH. As and when any amounts so invested may be needed for disbursements from the Bond Fund or the Rebate Fund, the Trustee shall cause a sufficient amount of such investments to be sold or otherwise converted into cash to the credit of such fund. As long as no Event of Default shall have occurred and be continuing, the Company shall have the right to designate the investments to be sold and to otherwise direct the Trustee in the sale or conversion to cash of such investments; provided that the Trustee shall be entitled to conclusively assume the absence of any Event of Default unless it has notice thereof within the meaning of Section 10.05 hereof.

SECTION 7.03. CREDIT FOR GAINS AND CHARGE FOR LOSSES. Gains from investments shall be credited to and held in and losses shall be charged to the fund or account from which the investment is made.

ARTICLE VIII

DEFEASANCE

If the Issuer shall pay or cause to be paid to the Owner of any Bond secured hereby the principal of, and premium, if any, and interest due and payable, and thereafter to become due and payable, upon such Bond or any portion of such Bond in an Authorized Denomination thereof, such Bond or portion thereof shall cease to be entitled to any lien, benefit or security under this Indenture.

If the Issuer shall pay or cause to be paid the principal of, and premium if any, and interest due and payable on, all Outstanding Bonds, and thereafter to become due and payable thereon, and shall pay or cause to be paid all other sums payable hereunder by the Issuer, including any necessary and proper fees, compensation and expenses of the Trustee, the Paying Agent, the Registrar, the Provider and the Remarketing Agent, then, and in that case, the right, title and interest of the Trustee in and to the Trust Estate shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over the Trust Estate to the Company and any surplus in the Bond Fund and any balance remaining in any other fund created under this Indenture shall be paid to the Company upon the request of an Authorized Company

Representative, other than any unclaimed moneys held pursuant to Sections 3.06(d) and 6.04. The Trustee may conclusively rely on certificates of the Remarketing Agent and the Provider as to the amount of any fees, expenses and other amounts owing to them. Notwithstanding anything herein to the contrary, in the event that the principal of and interest due on any Bonds shall be paid by the Provider pursuant to the Credit Facility, such Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to such Owners shall continue to exist and shall run to the benefit of the Provider and the Provider shall be subrogated to the rights of such Owners.

All or any portions of Bonds (in Authorized Denominations) shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of this Article VIII and for all purposes of this Indenture when:

(a) in the event said Bonds or portions thereof have been selected for redemption in accordance with Section 4.04 hereof, the Trustee shall have given, or the Company shall have given to the Trustee in form satisfactory to it irrevocable instructions to give, on a date in accordance with the provisions of Section 4.05 hereof, notice of redemption of such Bonds or portions thereof;

(b) there shall have been deposited with the Trustee moneys in an amount sufficient (without relying on any investment income) to pay when due the principal of, and premium, if any, and interest due and to become due (which amount of interest to become due shall be calculated at the Maximum Interest Rate unless the interest rate borne by all of such Bonds is not subject to adjustment prior to the maturity or redemption thereof, in which case the amount of interest shall be calculated at the rate borne by such Bonds) on said Bonds or portions thereof on and prior to the redemption date or maturity date thereof, as the case may be;

(c) in the event said Bonds or portions thereof do not mature and are not to be redeemed within the next succeeding 60 days, the Issuer at the direction of the Company shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable in the same manner as a notice of redemption is given pursuant to Section 4.05 hereof, a notice to the Owners of said Bonds or portions thereof and to the Provider that the deposit required by clause (b) above has been made with the Trustee and that said Bonds or portions thereof are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of, and premium, if any, and interest on, said Bonds or portions thereof; and

(d) the Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such deposit.

In the event the requirements of the next succeeding paragraph can be satisfied, the preceding paragraph shall not apply, and the following two paragraphs shall be applicable.

Any Bond shall be deemed to be paid within the meaning of this Article VIII and for all purposes of this Indenture when:

(a) payment of the principal of and premium if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or acceleration or upon redemption as provided herein) either (A) shall have been made or caused to be made in accordance with the terms thereof or (B) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment (1) moneys sufficient to make such payment, and/or (2) Government Obligations maturing as to principal and interest in such amount and at such time as will insure, without reinvestment, the availability of sufficient moneys to make such payment;

(b) all necessary and proper fees, compensation and expenses of the Issuer, the Trustee, the Remarketing Agent, the Provider, the Paying Agent and the Registrar pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee, the Trustee being able to conclusively rely on certificates of the Remarketing Agent and the Provider as to the amount of any fees, compensation and expenses owing to them; and

(c) an opinion of an independent public accountant of nationally recognized standing, selected by the Company, to the effect that such moneys and/or Government Obligations will insure, without reinvestment, the availability of sufficient moneys to make such payment, and a Favorable Opinion of Bond Counsel with respect to such deposit shall have been delivered to the Trustee. At such times as a Bond shall be deemed to be paid hereunder, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of registration and exchange of Bonds and of any such payment from such moneys or Government Obligations.

The foregoing provisions of this paragraph shall apply only if (x) such Bond is to mature or be called for redemption prior to the next date upon which such Bond is subject to purchase pursuant to Section 3.01 and 3.02 hereof; and (y) the Company has waived, to the satisfaction of the Trustee, its right to convert the interest rate borne by such Bond.

No deposit under clause (a)(B) of the preceding paragraph shall be deemed a payment of such Bonds as aforesaid until: (i) proper notice of redemption of such Bonds shall have been previously given in accordance with Section 4.05 hereof, or in the event said Bonds are not to be redeemed within the next succeeding 60 days, until the Company shall have given the Trustee on behalf of the Issuer, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Bonds and the Provider in accordance with Section 4.05 hereof, that the deposit required by clause (a)(B) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on said Bonds, plus interest thereon to the due date thereof; or (ii) the maturity of such Bonds.

Moneys deposited with the Trustee pursuant to this Article VIII shall not be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of, premium, if any, and interest on said Bonds or portions thereof, or for the payment of the purchase price of Bonds in accordance with Section 3.03 hereof; provided that such moneys, if not then needed for such purpose, shall to the extent practicable, be invested and reinvested in Government Obligations maturing on or prior to the earlier of (i) the date moneys may be required for the purchase of Bonds pursuant to Section 3.03 hereof or (ii) the Interest Payment Date next succeeding the date of investment or reinvestment, and interest earned from such investments shall be paid over to the Company, as received by the Trustee, free and clear of any trust, lien or pledge. If payment of less than all the Bonds is to be provided for in the manner and with the effect provided in this Article VIII, the Trustee shall select such Bonds or portion of such Bonds in the manner specified by Section 4.04 hereof for selection for redemption of less than all Bonds in the principal amount, not less than $100,000 or, to the extent permitted by Section 4.01(b) hereof, $5,000, designated to the Trustee by the Company.

Notwithstanding that all or any portion of the Bonds are deemed to be paid within the meaning of this Article VIII, the provisions of this Indenture relating to (i) the registration and exchange of Bonds, (ii) the delivery of Bonds to the Trustee for purchase and the related obligations of the Trustee with respect thereto, (iii) replacement of mutilated, lost, destroyed or stolen Bonds, (iv) payment of the Bonds from the moneys deposited as described in this Article and (v) payment, compensation, reimbursement and indemnification of the Trustee, shall remain in full force and effect with respect to all Bonds until the Maturity Date or the last date fixed for redemption of all Bonds prior to maturity and, in the case of clause (v), until payment, compensation, reimbursement or indemnification, as the case may be, of the Trustee.

ARTICLE IX

DEFAULTS AND REMEDIES

SECTION 9.01. EVENTS OF DEFAULT. Each of the following events shall constitute and is referred to in this Indenture as an "Event of Default":

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity, upon redemption or otherwise;

(b) a failure to pay an installment of interest on any of the Bonds for a period of (i) 30 days after the date upon which such interest has become due and payable if the Bonds bear interest at a Term Interest Rate, or (ii) two Business Days after the date upon which such interest has become due and payable if the Bonds bear interest at a PARS Rate, a Flexible Interest Rate, a Daily Interest Rate or a Weekly Interest Rate;

(c) a failure to pay an amount due in respect of the purchase price of Bonds pursuant to Section 3.01 and Section 3.02 hereof after such payment has become due and payable;

(d) a failure by the Issuer to observe and perform any covenant, condition, agreement or provision (other than as specified in Section 9.01(a), Section 9.01(b) and Section 9.01(c)) contained in the Bonds or in this Indenture on the part of the Issuer to be observed or performed, which failure shall continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Issuer and the Company by the Trustee by registered or certified mail which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and the Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided however, that the Trustee, or the Trustee and the Owners of such principal amount of Bonds, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Issuer or the Company on behalf of the Issuer within such period and is being diligently pursued; or

(e) an "Event of Default" under the Agreement.

If on the date on which payment of principal of, interest on or other amount in any respect of the Bonds is due, sufficient moneys are not available to make such payment, the Trustee shall promptly give telephonic notice of such insufficiency to the Company given to the person at the telephone number provided for in Section 3.06(c) hereof.

SECTION 9.02. ACCELERATION; OTHER REMEDIES.

(a) If an Event of Default described in Section 9.01(a), Section 9.01(b) or Section 9.01(c) or an Event of Default described in Section 9.01(e) hereof resulting from an "Event of Default" under Section 7.01(a) or Section 7.01(c) of the Agreement (of which the Trustee shall be deemed to have notice pursuant to the provisions of Section 10.05 hereof) has occurred and has not been cured or waived, then the Trustee may, with the consent of the Provider (unless a Provider Default shall have occurred and be continuing) or upon the written direction of the Provider (unless a Provider Default shall have occurred and be continuing) or upon the written request of the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding and with the consent of the Provider (unless a Provider Default shall have occurred and be continuing), the Trustee shall, by written notice by registered or certified mail to the Issuer, the Company and the Provider, declare the Bonds to be immediately due and payable, whereupon the Bonds shall without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and the Trustee shall give notice thereof by Mail to all Owners of Outstanding Bonds.

(b) The provisions of Section 9.02(a) are subject further to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Issuer shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds, any unpaid purchase price and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration

(with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum then borne by the Bonds) and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee and all Events of Default (other than nonpayment of the principal of Bonds which shall have become due by said declaration) shall have been remedied, then, in every such case, such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Issuer and the Company, and shall give notice thereof by Mail to all Owners of Outstanding Bonds; provided, however, that no such waiver, rescission and annulment shall extend to or affect any other Event of Default or subsequent Event of Default or impair any right, power or remedy consequent thereon.

(c) Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion, with the consent of the Provider (unless a Provider Default shall have occurred and be continuing) may, and upon the written request of the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction (except against negligence or willful misconduct) shall in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under, and require the Issuer, the Company or the Provider to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under, the Act, the Agreement, this Indenture, the Credit Facility and the Credit Facility Agreement, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Agreement or this Indenture, as the case may be;

(ii) bring suit upon the Bonds;

(iii) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Owners of Bonds; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds.

Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Provider (unless a Provider Default shall have occurred and be continuing) shall be entitled (subject to Section 9.04) to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds or the Trustee for the benefit of such Owners under this Indenture and shall be entitled to consent to any request or direction of the Owners as a condition to the effectiveness of any such request or direction.

(d) The Trustee shall waive any Event of Default hereunder and its consequences and rescind any declaration of acceleration of principal upon (i) the written direction of the Provider (unless a Provider Default shall have occurred and be continuing) and (ii) the written request of the Owners of (A) more than a majority in principal amount of all Outstanding Bonds in respect

of which default in the payment of principal or purchase price of or interest on the Bonds exists or (B) more than a majority in principal amount of all Outstanding Bonds in the case of any other Event of Default; provided, however, that (x) there shall not be waived any Event of Default specified in Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof unless prior to such waiver or rescission the Issuer shall have caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal and purchase price of any and all Bonds which shall have become due otherwise than by reason of such declaration of acceleration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum then borne by the Bonds) and (y) no Event of Default shall be waived unless (in addition to the applicable conditions as aforesaid) there shall have been deposited with the Trustee such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee. In case of any waiver or rescission described above, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or concluded or determined adversely, then and in every such case the Issuer, the Trustee and the Owners of Bonds shall be restored to their former positions and rights hereunder, respectively; provided further that no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SECTION 9.03. RESTORATION TO FORMER POSITION. In the event that any proceeding taken by the Trustee to enforce any right under this Indenture shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Issuer, the Trustee and the Owners of Bonds shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

SECTION 9.04. OWNERS' RIGHT TO DIRECT PROCEEDINGS. Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Provider (provided that a Provider Default shall not have occurred and be continuing) or the Owners of a majority in principal amount of the Bonds then Outstanding, with the consent of the Provider (if no Provider Default shall have occurred and be continuing), shall have the right, by an instrument in writing executed and delivered to the Trustee and upon furnishing to the Trustee indemnity satisfactory to it (except against negligence or willful misconduct), to direct the time, method and place of conducting all remedial proceedings available to the Trustee under this Indenture or exercising any trust or power conferred on the Trustee by this Indenture, provided that such direction shall not be other than in accordance with the provisions of law, the Agreement and this Indenture and shall not result in any personal liability of the Trustee.

SECTION 9.05. LIMITATION ON OWNERS' RIGHT TO INSTITUTE PROCEEDINGS. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy hereunder or in the Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as herein above provided and unless the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee so to do after the right to institute said suit, action or proceeding under Section 9.02 hereof shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to

it against the costs, expenses and liabilities to be incurred therein or thereby (except against negligence or willful misconduct), and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of said suit, action or proceeding, it being understood and intended that no one or more of the Owners shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder or under the Bonds, except in the manner herein provided, and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners.

SECTION 9.06. NO IMPAIRMENT OF RIGHT TO ENFORCE PAYMENT. Notwithstanding any other provision in this Indenture, the right of any Owner to receive payment of the principal or purchase price of, and premium, if any, and interest on, its Bond, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner.

SECTION 9.07. PROCEEDINGS BY TRUSTEE WITHOUT POSSESSION OF BONDS. All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Owners, subject to the provisions of this Indenture.

SECTION 9.08. NO REMEDY EXCLUSIVE. Except as provided in Section 2.13, no remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or under the Agreement, or now or hereafter existing at law or in equity or by statute; provided, however, that any conditions set forth herein to the taking of any remedy to enforce the provisions of this Indenture, the Bonds or the Agreement shall also be conditions to seeking any remedies under any of the foregoing pursuant to this Section 9.08.

SECTION 9.09. NO WAIVER OF REMEDIES. No delay or omission of the Trustee or of any Owner to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default, or an acquiescence therein; and every power and remedy given by this Article IX to the Trustee and to the Owners, respectively, may be exercised from time to time and as often as may be deemed expedient.

SECTION 9.10. APPLICATION OF MONEYS. Any moneys received by the Trustee, by any receiver or by any Owner pursuant to any right given or action taken under the provisions of this Article IX, after payment of the costs and expenses, liabilities and advances incurred or made by the Trustee or its agents or counsel (provided that moneys held for Bonds not presented for

payment or deemed paid pursuant to Section 3.06(d), Section 6.04 or Article VIII hereof shall not be used for purposes other than payment of such Bonds), shall be deposited in the Bond Fund and all moneys so deposited in the Bond Fund during the continuance of an Event of Default (other than moneys for the payment of Bonds which had matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default) shall be applied as follows:

(a) Unless the principal of all the Bonds shall have been declared due and payable, all such moneys shall be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on each Bond, with interest on overdue installments of interest, if lawful at the rate per annum then borne by such Bond, in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of this Indenture) with interest on each Bond at its rate from the respective dates upon which it became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal as aforesaid, without preference or priority of principal over interest or interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article then, subject to the provisions of subparagraph (b) of this Section 9.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of subparagraph (a) of this Section 9.10.

Whenever moneys are to be applied pursuant to the provisions of this Section 9.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the Bond Payment Date upon which such application is to commence and upon such Bond Payment Date interest on the amounts of principal and interest to be paid on such Bond Payment Date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such Bond Payment Date by Mail to the Provider and all Owners of Outstanding Bonds and shall not be required to make payment to

any Owner until such Bond shall be presented to the Trustee for appropriate endorsement or cancellation if fully paid.

SECTION 9.11. SEVERABILITY OF REMEDIES. It is the purpose and intention of this Article IX to provide rights and remedies to the Trustee and the Owners which may be lawfully granted under the provisions of the Act, but should any right or remedy herein granted be held to be unlawful the Trustee and the Owners shall be entitled, as above set forth, to every other right and remedy provided in this Indenture and by law.

ARTICLE X

TRUSTEE; PAYING AGENT; REGISTRAR; REMARKETING AGENT

SECTION 10.01. ACCEPTANCE OF TRUSTS. The Issuer initially appoints Chase Manhattan Bank and Trust Company, National Association, as Trustee and Paying Agent. The Trustee hereby accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article X, to all of which the Issuer agrees and the respective Owners agree by their acceptance of delivery of any of the Bonds. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default, undertakes to perform such duties and only such duties as are specifically set forth herein and no implied covenant shall be read into this Indenture.

SECTION 10.02. NO RESPONSIBILITIES FOR RECITALS. The recitals, statements and representations contained in this Indenture or in the Bonds, save only the Trustee's authentication upon the Bonds, shall not be taken and construed as made by or on the part of the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof or for the validity, sufficiency or priority of this Indenture or the Agreement, or the perfection or the maintenance of the perfection of any security interest granted hereby.

SECTION 10.03. LIMITATIONS ON LIABILITY. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, receivers or employees, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder and shall not be answerable for the conduct of any such attorney, agent, receiver or employee if appointed by the Trustee with reasonable care, and the advice of any such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted hereunder in good faith and reliance thereon. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with the trusts created hereby, except only for its own negligence or willful misconduct.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Provider or the Owners of a majority in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of

conducting any proceeding or any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

The permissive rights of the Trustee to do things enumerated in this Trust Indenture shall not be construed as a duty unless so specified herein.

The Trustee shall not be liable for any error of judgment made in good faith by an officer, director or employee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Provider or the Owners pursuant to the provisions of this Trust Indenture unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

Whether or not expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of the Trustee shall be subject to the provisions of this Article X and shall extend to the Registrar, Paying Agents, and employees and agents of the Trustee.

SECTION 10.04. COMPENSATION, EXPENSES AND ADVANCES. The Trustee, the Paying Agent and the Registrar shall be entitled to such compensation as shall be agreed in writing with the Company for their services rendered hereunder (not limited by any provision of law in regard to the compensation of the trustee of an express trust) and to reimbursement for their actual out-of-pocket expenses (including reasonable counsel fees and expenses) reasonably incurred in connection therewith except as a result of their negligence or willful misconduct. If the Issuer shall fail to perform any of the covenants or agreements contained in this Indenture, the Trustee may, in its uncontrolled discretion and without notice to the Owners, at any time and from time to time, make advances to effect performance of the same on behalf of the Issuer, but the Trustee shall be under no obligation so to do; and any and all such advances shall bear interest at a rate per annum equal to the lesser of the Maximum Interest Rate and the rate of interest then in effect and as announced by The Chase Manhattan Bank as its prime lending rate for domestic commercial loans in New York, New York; but no such advance shall operate to relieve the Issuer from any Event of Default. In no event shall the Trustee be liable for any claims resulting from any decision on its part not to advance funds as permitted in the immediately preceding sentence. In the Agreement, the Company has agreed that it will pay to the Trustee, the Paying Agent, and the Registrar compensation and reimbursement of expenses and advances and certain indemnitees, but the Company may, without creating an Event of Default, contest in good faith the reasonableness of any such expenses and advances. If the Company shall have failed to make any payment to the Trustee, the Paying Agent or the Registrar under the Agreement, then each of the Trustee, the Paying Agent and the Registrar shall have, in addition to any other rights hereunder, a claim, prior to the claim of the Owners, for the payment of their compensation and

indemnitees and the reimbursement of their expenses and any advances made by them, as provided in this Section 10.04, upon the moneys and obligations in the Bond Fund, except for moneys or obligations deposited with or paid to the Trustee for the redemption or payment of Bonds which are deemed to have been paid in accordance with Article VIII hereof, or funds held pursuant to Section 6.04 hereof.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 7.01(c) of the Agreement, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section 10.04 shall survive the termination of this Indenture.

SECTION 10.05. NOTICE OF EVENTS OF DEFAULT AND DETERMINATION OF TAXABILITY. The Trustee shall not be required to take notice, or be deemed to have notice of any default or Event of Default, other than an Event of Default under Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof or any Provider Default, unless the Trustee shall have been specifically notified in writing at the Principal Office of the Trustee, Attention: Corporate Trust Administration, of such Event of Default or Provider Default by the Owners of at least 25% in principal amount of the Bonds then Outstanding, the Issuer, the Company, the Provider or the Remarketing Agent. The Trustee may, however, at any time, in its discretion, require of the Issuer full information and cooperation as to the performance of any of the covenants, conditions and agreements contained herein. Such inquiry shall not for the purposes of this Section 10.05 constitute notice of any Event of Default. The Issuer shall not be required to take notice, or be deemed to have notice, of any Event of Default, other than an Event of Default of which it shall have actual knowledge. If an Event of Default occurs after the Trustee has notice of the same as provided in this Section 10.05, or if a Determination of Taxability occurs of which the Trustee has actual knowledge, then the Trustee shall give notice thereof by Mail to the Provider, the Remarketing Agent and the Owners of Outstanding Bonds.

SECTION 10.06. ACTION BY TRUSTEE. Except as provided in Section 3.03, Section 9.02 and Section 9.04 hereof and except for the payment of principal of, and premium, if any, and interest on, the Bonds when due from moneys held by the Trustee as part of the Trust Estate, the Trustee shall be under no obligation to take any action in respect of any Event of Default or toward the execution or enforcement of any of the trusts hereby created, or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by the Owners of at least 33-1/3% in principal amount of the Bonds then Outstanding and, if in its opinion such action may tend to involve it in expense or liability, unless furnished, from time to time as often as it may require, with security and indemnity satisfactory to it (except against negligence or willful misconduct); but the foregoing provisions are intended only for the protection of the Trustee, and shall not affect any discretion or power given by any provisions of this Indenture to the Trustee to take action in respect of any Event of Default without such notice or request from the Owners, or without such security or indemnity.

Notwithstanding any other provision of this Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee shall consider the effect on the Owners as if there were no Credit Facility.

SECTION 10.07. GOOD-FAITH RELIANCE. The Trustee, the Registrar, the Provider and the Remarketing Agent, shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, telex or facsimile transmission, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board, body or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture or the Agreement, or upon the written opinion of any attorney, engineer, accountant or other expert believed, without independent investigation, by the Trustee, the Registrar or the Remarketing Agent, as the case may be, to be qualified in relation to the subject matter. The Trustee, the Registrar, the Provider and the Remarketing Agent, shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements; provided, however, that the Trustee may, in its discretion, make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation it shall be entitled to examine the books, records and premises of the Company personally or by agent or attorney. Neither the Trustee, the Registrar, the Provider nor the Remarketing Agent shall be bound to recognize any person as an Owner or to take any action at such person's request unless satisfactory evidence of the ownership of such Bond shall be furnished to such entity.

Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of negligence or bad faith on its part, request and conclusively rely upon a certificate of an Authorized Company Representative or an Executive Officer.

The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds or the taking of any other action whatsoever within the purview of this Indenture or the Agreement, any showings, certificates, opinions or other information, or corporate action or evidence thereof, in addition to those by the terms hereof or thereof required as a condition of such action which are reasonably deemed desirable by the Trustee for the purpose of establishing the right of the Issuer or the Company to request the taking of such action by the Trustee.

SECTION 10.08. DEALINGS IN BONDS; ALLOWANCE OF INTEREST. The Trustee, the Registrar, the Provider, or the Remarketing Agent, in its individual capacity, may in good faith buy, sell own,

hold and deal in any of the Bonds issued hereunder and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, the Registrar, the Provider, or the Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the Company, and may act as depositary, trustee or agent for any committee or body of Owners secured hereby or other obligations of the Issuer or the Company as freely as if it did not act in any capacity hereunder.

All moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received hereunder except such as it may agree with the Company to pay thereon.

SECTION 10.09. SEVERAL CAPACITIES. Anything in this Indenture to the contrary notwithstanding, the same entity may serve hereunder as the Trustee, the Registrar, the Paying Agent and the Remarketing Agent and in any other combination of such capacities, to the extent permitted by law. For purposes of this Trust Indenture, the Remarketing Agent shall not be deemed to be an agent or representative of the Trustee.

SECTION 10.10. RESIGNATION OF TRUSTEE. The Trustee may resign and be discharged of the trusts created by this Indenture by executing any instrument in writing resigning such trust and specifying the date when such resignation shall take effect, and filing the same with the Issuer, the Company, the Registrar, the Provider, and the Remarketing Agent not less than 45 days before the date specified in such instrument when such resignation shall take effect, and by giving notice of such resignation by Mail not less than three weeks prior to such resignation date, to all Owners of Bonds. Such resignation shall take effect on the day specified in such instrument and notice, unless previously a successor Trustee shall have been appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor Trustee, but in no event shall a resignation take effect earlier than the date on which a successor Trustee has been appointed and has accepted its appointment.

SECTION 10.11. REMOVAL OF TRUSTEE.

(a) The Trustee may be removed at any time by filing with the Trustee so removed and with the Issuer, the Company, the Registrar, the Provider, and the Remarketing Agent, an instrument or instruments in writing executed by (i) the Provider, if no Provider Default or Event of Default shall have occurred and be continuing and if the Trustee has acted or failed to act hereunder in a manner that is contrary to the standard of care of the Trustee provided for herein, or (ii) the Owners of not less than a majority in principal amount of the Bonds then Outstanding and, if no Provider Default shall have occurred and be continuing, the Provider.

(b) The Issuer may, and, so long as no default or Event of Default is then existing under Section 7.01 of the Agreement or Section 9.01(a), (b) or (c) of this Indenture, at the request of the Company will, remove the Trustee if (i) the Trustee fails to comply with Section 10.13(a), (b), (c) or (e) hereof, (ii) the Trustee is adjudged a bankrupt or an insolvent, (iii) a receiver or other

public officer takes charge of the Trustee or its property or (iv) the Trustee otherwise becomes incapable of acting.

(c) In no event shall a removal take effect earlier than the date on which a successor Trustee has been appointed and has accepted its appointment.

SECTION 10.12. APPOINTMENT OF SUCCESSOR TRUSTEE. In case at any time the Trustee shall be removed, or be dissolved, or if its property or affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, then a vacancy shall forthwith and ipso facto exist in the office of Trustee and a successor may be appointed, and in case at any time the Trustee shall resign, then a successor may be appointed by filing with the Issuer, the Company, the Registrar and the Remarketing Agent an instrument in writing executed by (i) the Provider, if no Provider Default shall have occurred and be continuing, or (ii) the Owners of not less than a majority in principal amount of the Bonds then Outstanding and, if no Provider Default shall have occurred and be continuing, the Provider, or (iii) the Company if no default or Event of Default is then existing under Section 7.01 of the Agreement or Section 9.01(a), (b) or (c) of this Indenture. Copies of such instrument shall be promptly delivered by the Issuer to the predecessor Trustee and to the Trustee so appointed.

Until a successor Trustee shall be appointed by the Provider, the Owners or by the Company as herein authorized, the Issuer, by an instrument authorized by the governing body of the Issuer, shall appoint a successor Trustee acceptable to the Company and the Provider. After any appointment by the Issuer, it shall cause notice of such appointment to be given to the Remarketing Agent and the Registrar and to be given by Mail to all Owners of Bonds. Any new Trustee so appointed by the Issuer shall immediately and without farther act be superseded by a Trustee appointed by the Owners in the manner above provided.

SECTION 10.13. QUALIFICATIONS OF SUCCESSOR TRUSTEE. Every successor Trustee (a) shall be a national or state bank or trust company that is authorized by law to perform all the duties imposed upon it by this Indenture, (b) shall have (or, in the case of a corporation included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least $50,000,000 as set forth in its (or its related bank holding company's) most recent published annual report of condition, (c) shall be permitted under the Act to perform the duties of Trustee, (d) shall be acceptable to the Provider, and (e) so long as the Bonds are subject to optional or mandatory purchase pursuant to the provisions of this Indenture and no book-entry system for the Bonds is in effect pursuant to Section 2.16 hereof, shall have an office or agency located in New York, New York, if there can be located, with reasonable effort, such an institution willing and able to accept the trust on reasonable and customary terms.

SECTION 10.14. JUDICIAL APPOINTMENT OF SUCCESSOR TRUSTEE. In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article X prior to the date specified in the notice of resignation as the date when such resignation is to take effect, the resigning Trustee may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article X within six months after a vacancy shall have occurred in the office of Trustee, any Owner may apply to any

court of competent Jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

SECTION 10.15. ACCEPTANCE OF TRUSTS BY SUCCESSOR TRUSTEE. Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer an instrument accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become duly vested with all the estates, property rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder, with like effect as if originally named Trustee herein. Upon request of such Trustee, such predecessor Trustee and the Issuer shall execute and deliver an instrument transferring to such successor Trustee all the estates, property, rights, powers and trusts hereunder of such predecessor Trustee and, subject to the provisions of Section 10.04 hereof, such predecessor Trustee shall pay over to the successor Trustee all moneys and other assets at the time held by it hereunder.

SECTION 10.16. SUCCESSOR BY MERGER OR CONSOLIDATION. Any corporation into which any Trustee hereunder may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any Trustee hereunder shall be a party, or to which all or substantially all of its corporate trust business shall be transferred, shall be the successor Trustee under this Indenture, without the execution or filing of any paper or any further act on the part of the parties hereto, anything in this Indenture to the contrary notwithstanding, provided, however, if such successor corporation is not a trust company or state or national bank that has trust powers, the Trustee shall resign from the trusts hereby created prior to such merger, transfer or consolidation or the successor corporation shall resign from such trusts as soon as practicable after such merger, transfer or consolidation.

SECTION 10.17. STANDARD OF CARE. Notwithstanding any other provisions of this Article X, the Trustee shall, during the existence and prior to the curing of an Event of Default of which the Trustee has notice as provided in Section 10.05 hereof, exercise such of the rights and powers vested in it by this Indenture and use the same degree of skill and care in their exercise as a prudent person would use and exercise under the circumstances in the conduct of his own affairs.

SECTION 10.18. INTERVENTION IN LITIGATION OF THE ISSUER. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners of the Bonds, the Trustee may and shall upon receipt of indemnity satisfactory to it (except against negligence or willful misconduct) at the written request of the Owners of at least 25% in principal amount of the Bonds then Outstanding and if permitted by the court having jurisdiction in the premises, intervene in such judicial proceeding.

SECTION 10.19. REMARKETING AGENT. The Company has covenanted in the Agreement that at all times while any of the Bonds are Outstanding and are subject to optional or mandatory purchase pursuant to the provisions hereof there shall be a Remarketing Agent for the Bonds appointed and acting pursuant to the provisions of this Indenture. The Remarketing Agent shall designate its Principal Office to the Trustee, the Company, the Registrar and the Issuer.

The Issuer shall cooperate with the Trustee, the Registrar and the Company to cause the necessary arrangements to be made and to be thereafter continued whereby funds from the sources specified herein and in the Agreement will be made available for the purchase of Bonds presented at the Delivery Office of the Trustee and whereby Bonds, executed by the Issuer and authenticated by the Trustee, shall be made available to the Remarketing Agent to the extent necessary for delivery pursuant to Section 3.06 hereof.

SECTION 10.20. QUALIFICATIONS OF REMARKETING AGENT. The Remarketing Agent shall have a capitalization of at least $50,000,000 and be authorized by law to perform all the duties contemplated by this Indenture to be performed by the Remarketing Agent and agrees to take all actions required of it under the DTC Representation Letter while a book-entry system is in effect for the Bonds. The Remarketing Agent may at any time resign and be discharged of the duties and obligations contemplated by this Indenture by giving at least 30 days' notice to the Issuer, the Company, the Registrar and the Trustee. The Remarketing Agent may be removed at any time, at the direction of the Company, by an instrument, signed by the Authorized Company Representative, filed with the Issuer, the Remarketing Agent, the Registrar and the Trustee at least 30 days prior to the effective date of such removal. Upon the resignation or removal of the Remarketing Agent, the Company may appoint a new Remarketing Agent.

In the event of the resignation or removal of the Remarketing Agent, the Remarketing Agent shall pay over, assign and deliver any moneys held by it in such capacity to its successor or, if there be no successor, to the Trustee.

In the event that the Company shall fail to appoint a Remarketing Agent hereunder, or in the event that the Remarketing Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Remarketing Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Company shall not have appointed a successor Remarketing Agent, the Trustee, notwithstanding the provisions of the first paragraph of this Section 10.20, shall ipso facto be deemed to be the Remarketing Agent for all purposes of this Indenture until the appointment by the Company of the Remarketing Agent or successor Remarketing Agent, as the case may be; provided, however, that the Trustee, in its capacity as Remarketing Agent, shall not be required to sell Bonds or determine the interest rate on the Bonds pursuant to Article II hereof on the basis of an examination of Tax-Exempt obligations comparable to the Bonds but shall determine any applicable alternate interest rate if so required by the applicable provisions of Article II hereof.

SECTION 10.21. REGISTRAR. Pursuant to the provisions hereof the Trustee is the initial Registrar for the Bonds. By its execution of this Indenture, the Trustee signifies its acceptance of the duties of Registrar hereunder. Any successor Registrar shall designate to the Issuer, the Company and the Remarketing Agent its office where the registration books shall be kept and signify its acceptance of the duties imposed upon it hereunder by a written instrument of acceptance delivered to the Issuer and the Trustee under which such Registrar will agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, the Trustee, the Company, the Provider and the Remarketing Agent at all reasonable times. So long as the Bonds are subject to optional or mandatory purchase pursuant to the provisions of this Indenture and no

book-entry system for the Bonds is in effect pursuant to Section 2.16 hereof, the Registrar shall maintain in New York, New York, an office or agency for the exchange, registration and registration of transfer of the Bonds.

The Issuer shall cooperate with the Trustee, the Remarketing Agent and the Company to cause the necessary arrangements to be made and to be thereafter continued whereby Bonds, executed by the Issuer and authenticated by the Registrar, shall be made available for exchange, registration and registration of transfer at the Principal Office of the Registrar. The Issuer shall cooperate with the Trustee, the Registrar, the Company and the Remarketing Agent to cause the necessary arrangements to be made and thereafter continued whereby the Trustee and the Remarketing Agent shall be furnished such records and other information, at such times, as shall be required to enable the Trustee and the Remarketing Agent to perform the duties and obligations imposed upon them hereunder.

SECTION 10.22. QUALIFICATIONS OF REGISTRAR; RESIGNATION; REMOVAL. The Registrar shall be a corporation duly organized under the laws of the United States of America or any state or territory thereof, having a combined capital surplus and retained earnings of at least $10,000,000 and authorized by law to perform all the duties imposed upon it by this Indenture. The Registrar may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 45 days' notice to the Issuer, the Trustee, the Remarketing Agent and the Company. The Registrar may be removed at any time by an instrument signed by the Authorized Company Representative and filed with the Issuer, the Registrar, the Trustee, and the Remarketing Agent. Upon the resignation or removal of the Registrar, the Company shall appoint a new Registrar.

In the event of the resignation or removal of the Registrar, the Registrar shall deliver any Bonds held by it in such capacity to its successor or, if there be no successor, to the Trustee.

In the event that the Company shall fail to appoint a Registrar hereunder, or in the event that the Registrar shall resign or be removed, or be dissolved, or if the property or affairs of the Registrar shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Company shall not have appointed its successor as Registrar, the Trustee shall ipso facto be deemed to be the Registrar for all purposes of this Indenture until the appointment by the Company of the Registrar or successor Registrar, as the case may be.

SECTION 10.23. PAYING AGENTS. The Company, with the written approval of the Trustee and the Issuer, may appoint and at all times have one or more paying agents in such place or places as the Company may designate, for the payment of the principal of, and premium, if any, and the interest on, the Bonds. Each such paying agent shall have the power to hold moneys in trust. It shall be the duty of the Trustee to make such arrangements with any such paying agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and premium, if any, and interest on, the Bonds presented at either place of payment. The Paying Agent initially appointed hereunder is the Trustee, and the place of payment shall be the Delivery Office of the Trustee.

SECTION 10.24. ADDITIONAL DUTIES OF TRUSTEE. The Trustee shall:

(a) hold all Bonds delivered to it hereunder for the account of and for the benefit of the respective Owners which shall have so delivered such Bonds pursuant to Section 3.01 or Section 3.02 until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Owners;

(b) hold all moneys delivered to it hereunder for the purchase of Bonds for the benefit of the person or entity which shall have so delivered such moneys until the Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(c) keep such books and records with respect to the Bonds as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, any Paying Agent, the Company and the Remarketing Agent at all reasonable times; and

(d) as long as a book-entry system is in effect for the Bonds, the Trustee will comply with the DTC Representation Letter and perform all duties required of it thereunder.

ARTICLE XI

EXECUTION OF INSTRUMENTS BY OWNERS AND PROOF OF OWNERSHIP OF BONDS

Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by the Owners or on their behalf by an attorney-in-fact may be in any number of concurrent instruments of similar tenor and may be signed or executed by the Owners in person or by an agent or attorney-in-fact appointed by an instrument in writing or as provided in the Bonds. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such Jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.

(b) The ownership of Bonds shall be proved by the registration books kept under the provisions of Section 2.12 hereof.

Nothing contained in this Article XI shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of matters herein stated which it may deem sufficient. Any request by or consent of any Owner shall bind every future Owner of the same Bond or any Bond or Bonds issued in lieu thereof or upon registration of transfer thereof in respect of anything done by the Trustee or the Issuer in pursuance of such request or consent.

ARTICLE XII

MODIFICATION OF THIS INDENTURE AND THE AGREEMENT

SECTION 12.01. SUPPLEMENTAL INDENTURES WITHOUT OWNER CONSENT. The Issuer and the Trustee may, from time to time and at any time, without the consent of the Owners, enter into a Supplemental Indenture as follows:

(a) to cure any formal defect, omission, inconsistency or ambiguity in this Indenture;

(b) to add to the covenants and agreements of the Issuer contained in this Indenture or of the Company or of the Provider contained in any document, other covenants or agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved or conferred upon the Issuer or the Company, which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds;

(c) to confirm as further assurance, any pledge of or lien on the Revenues or any other moneys, securities or funds subject or to be subjected to the lien of this Indenture;

(d) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, if applicable to this Indenture;

(e) to modify, alter, amend or supplement this Indenture or any Supplemental Indenture in any other respect which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds;

(f) to implement a conversion of the interest rate on the Bonds;

(g) to provide for a Change of Credit Facility;

(h) to provide for a depository to accept Bonds in lieu of the Trustee;

(i) to modify or eliminate the book-entry registration system for any of the Bonds;

(j) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal but only to the extent that such would not adversely affect the Tax-Exempt status of the Bonds;

(k) to secure or maintain ratings on the Bonds from Moody's and/or S&P;

(1) to provide demand purchase obligations to cause the Bonds to be authorized purchases for investment companies;

(m) to provide for the appointment of a Remarketing Agent or a successor Trustee, Registrar, Paying Agent or Remarketing Agent;

(n) to provide the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such right as contemplated by Section 1286 of the Code (or similar successor provision);

(o) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of the Bonds; and

(p) to modify, alter, amend or supplement this Indenture in any other respect, including amendments which would otherwise be described in Section 12.02 hereof, if the effective date of such supplement or amendment is a date on which all Bonds affected thereby are subject to mandatory purchase pursuant to Section 3.02 hereof or if notice by Mail of the Proposed amendment or supplement is given to Owners of the Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date, such Owners have the right to require purchase of their Bonds pursuant to Section 3.01 hereof.

Before the Issuer and the Trustee shall enter into any Supplemental Indenture pursuant to this Section 12.01, (1) in the case of a Supplemental Indenture entered into pursuant to clauses (l), (n) or (p) of this Section and provided that no Provider Default shall have occurred and be continuing, there shall have been delivered to the Trustee and the Company, the written consent of the Provider, and (2) in all cases, there shall have been delivered to the Trustee, the Provider and the Company, a Favorable Opinion of Bond Counsel with respect to such Supplemental Indenture and further stating that such Supplemental Indenture is authorized or permitted by this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into any such Supplemental Indenture that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

The Trustee shall provide written notice of any Supplemental Indenture described in this Section 12.01 to Moody's, S&P, the Provider, the Remarketing Agent and the Owners of all Bonds then Outstanding at least 15 days prior to the effective date of such Supplemental Indenture. Such notice shall state the effective date of such Supplemental Indenture and shall briefly describe the nature of such Supplemental Indenture and shall state that a copy thereof is on

file at the Principal Office of the Trustee for inspection by the parties mentioned in the preceding sentence.

SECTION 12.02. SUPPLEMENTAL INDENTURES REQUIRING OWNER CONSENT.

(a) Except for any Supplemental Indenture entered into pursuant to Section 12.01 hereof, subject to the terms and provisions contained in this Section 12.02 and not otherwise, the Provider (unless a Provider Default shall have occurred and be continuing), together with the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right from time to time to consent to and approve the execution and delivery by the Issuer and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Issuer for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided however, that, unless approved in writing by the Provider (unless a Provider Default shall have occurred and be continuing) and the Owners of all the Bonds then affected thereby, nothing herein contained shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of, or premium if any, or interest on, any Outstanding Bond, a change in the terms of the purchase thereof by the Trustee, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, or (ii) the creation of a claim or lien upon, or a pledge of, the Revenues ranking prior to or on a parity with the claim, lien or pledge created by this Indenture (except as referred to in Section 10.04 hereof), or (iii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required, under Section 12.06 hereof, for any modification, alteration, amendment or supplement to the Agreement.

(b) If at any time the Issuer shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 12.02, the Trustee shall cause notice of the proposed Supplemental Indenture to be given by Mail to Moody's, S&P, the Provider, the Remarketing Agent and all Owners of Outstanding Bonds. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the Principal Office of the Trustee for inspection by the Owners, Moody's, S&P, the Provider and the Remarketing Agent.

(c) Within two years after the date of the mailing of such notice, the Issuer and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice, but only if there shall have first been delivered to the Trustee (i) the required consents, in writing, of the Owners and the Provider and (ii) a Favorable Opinion of Bond Counsel with respect to such Supplemental Indenture and further stating that such Supplemental Indenture is authorized or permitted by this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into any such Supplemental Indenture that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

(d) If Owners of not less than the percentage of Bonds required by this Section 12.02 shall have consented to and approved the execution and delivery of a Supplemental Indenture as herein provided, no Owner shall have any right to object to the execution and delivery of such

Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Issuer or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

SECTION 12.03. EFFECT OF SUPPLEMENTAL INDENTURE. Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article XII, this Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture shall thereafter be determined, exercised and enforced under this Indenture subject in all respects to such modifications and amendments.

SECTION 12.04. CONSENT OF THE COMPANY AND THE PROVIDER. No Supplemental Indenture under this Article XII and no amendment of the Agreement shall become effective unless the Company shall have consented thereto in writing.

Any provision of this Indenture expressly recognizing or granting rights in or to the Provider may not be amended in any manner which affects the rights of the Provider hereunder without the prior written consent of the Provider.

SECTION 12.05. AMENDMENT OF AGREEMENT WITHOUT OWNER CONSENT. Without the consent of or notice to the Owners, the Issuer and the Company may, with the consent of the Provider (unless a Provider Default shall have occurred and be continuing) modify, alter, amend or supplement the Agreement, and the Trustee may consent thereto, as may be required:

(a) by the provisions of the Agreement and this Indenture;

(b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein;

(c) in connection with any other change therein which in the judgment of the Trustee is not materially adverse to the Owners;

(d) to secure or maintain ratings on the Bonds from Moody's and/or S&P;

(e) to add to the covenants and agreements of the Issuer contained in the Agreement or of the Company or of the Provider contained in any document, other covenants or agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved or conferred upon the Issuer or the Company, which shall not materially adversely affect the interest of the Owners of the Bonds;

(f) to provide demand purchase obligations to cause the Bonds to be authorized purchases for investment companies;

(g) to provide the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell

or dispose of such right as contemplated by Section 1286 of the Code (or similar successor provision);

(h) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds;

(i) to implement a conversion of the interest rate on the Bonds or in connection with the appointment of a Remarketing Agent;

(j) to provide for a Change of Credit Facility; and

(k) to modify, alter, amend or supplement the Agreement in any other respect, including amendments which would otherwise be described in Section 12.06 hereof, if the effective date of such supplement or amendment is a date on which all Bonds affected thereby are subject to mandatory purchase pursuant to Section 3.02 hereof or if notice by Mail of the proposed amendment or supplement is given to Owners of the Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date-, such Owners have the right to demand purchase of their Bonds pursuant to Section 3.01 hereof.

A revision of Exhibit A to the Agreement in accordance with Section 3.04 of the Agreement shall not be deemed a modification, alteration, amendment or supplement to the Agreement, or to this Indenture, for any purpose of this Indenture.

Before the Issuer shall enter into, and the Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement pursuant to this Section 12.05, there shall have been delivered to the Issuer, the Provider and the Trustee a Favorable Opinion of Bond Counsel with respect to such modification, alteration, amendment or supplement and further stating that such modification, alteration, amendment or supplement is authorized or permitted by the Agreement or this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into or consent to any such modifications, alterations, amendments or supplements to the Agreement that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

SECTION 12.06. AMENDMENT OF AGREEMENT REQUIRING OWNER CONSENT. Except in the case of modifications, alterations, amendments or supplements referred to in Section 12.05 hereof, the Issuer shall not enter into, and the Trustee shall not consent to, any amendment, change or modification of the Agreement without the written approval or consent of the Provider (unless a Provider Default shall have occurred and be continuing) and the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, given and procured as provided in Section 12.02 hereof, provided, however, that, unless approved in writing by the Provider (unless a Provider Default shall have occurred and be continuing) and the Owners of all Bonds affected thereby, nothing herein contained shall permit, or be construed as permitting, a change in the obligations of the Company under Section 4.01 and Section 4.02 of the Agreement. If at any time the Issuer or the Company shall request the consent of the Trustee to any such proposed

modification, alteration, amendment or supplement permitted under this Section 12.06, the Trustee shall cause notice thereof to be given in the same manner as provided by Section 12.02 hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed modification, alteration, amendment or supplement and shall state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by all Owners. The Issuer may enter into, and the Trustee may consent to, any such proposed modification, alteration, amendment or supplement subject to the same conditions and with the same effect as provided in Section 12.02 hereof with respect to Supplemental Indentures.

Before the Issuer shall enter into, and the Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement pursuant to this Section 12.06, there shall have been delivered to the Issuer, the Provider and the Trustee a Favorable Opinion of Bond Counsel with respect to such modification, alteration, amendment or supplement and further stating that such modification, alteration, amendment or supplement is authorized or permitted by the Agreement or this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into any such modifications, alterations, amendments or supplements to the Agreement that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01. SUCCESSORS OF THE ISSUER. In the event of the dissolution of the Issuer, all the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of, or for the benefit of the Issuer, shall bind or inure to the benefit of the successors of the Issuer from time to time and any entity, officer, board, commission, agency or instrumentality to whom or to which any power or duty of the Issuer shall be transferred.

SECTION 13.02. PARTIES IN INTEREST. Except as herein otherwise specifically provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the Issuer, the Remarketing Agent, the Registrar, the Paying Agent, the Company, the Trustee, the Provider and the Owners of Bonds any right, remedy or claim under or by reason of this Indenture, this Indenture being intended to be for the sole and exclusive benefit of the Issuer, the Remarketing Agent, the Registrar, the Paying Agent, the Company, the Trustee, the Provider and the Owners of Bonds. The Trustee shall have no fiduciary duty to any entity other than the Owner of any Bond as such and only in accordance with, into the extent of, the terms and provisions hereunder.

SECTION 13.03. SEVERABILITY. In case any one or more of the provisions of this Indenture or of the Agreement or of the Bonds shall for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture, the Agreement, or of the Bonds, and this Indenture, the Agreement and the Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained herein or therein.

SECTION 13.04. NO PERSONAL LIABILITY OF ISSUER OFFICIALS. No representation, warranty, covenant or agreement contained in the Bonds or in this Indenture or in any of the documents or certificates related thereto shall be deemed to be the representation, warranty, covenant or agreement of any official, officer, agent, counsel or employee of the Issuer in his or her individual capacity, and neither the members of the Issuer nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

SECTION 13.05. BONDS OWNED BY THE ISSUER OR THE COMPANY. In determining whether the Owners of the requisite aggregate principal amount of the Bonds have concurred in any direction, consent or waiver under this Indenture, Bonds which are owned by the Issuer or the Company or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (unless the Issuer, the Company or such person owns all Bonds which are then Outstanding, determined without regard to this Section 13.05) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Bonds which the Trustee actually knows are so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Issuer or the Company or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 13.06. COUNTERPARTS. This Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Indenture.

SECTION 13.07. GOVERNING LAW. This Indenture shall be governed by and construed in accordance with the laws of the State; provided, however, that the rights, protections and immunities of the Trustee shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 13.08. NOTICES. Except as otherwise provided in this Indenture, all notices, certificates, requests, requisitions, directions or other communications by the Issuer, the Company, the Trustee, the Registrar, the Paying Agent, the Provider or the Remarketing Agent, pursuant to this Indenture shall be in writing and shall be sufficiently given and shall be deemed given when mailed by Mail or by certified or registered mail postage prepaid, or by overnight delivery service, addressed as follows (and, if by overnight delivery service and required by the chosen delivery service, with then-current telephone numbers of the addressees):

if to the Issuer, to: City of Forsyth, Montana
City Hall
Forsyth, Montana 59327
Attention: Mayor

if to the Trustee, to: Chase Manhattan Bank and Trust Company,
National Association
101 California Street, Suite 2725
San Francisco, California 94111
Attention: Corporate Trust Administration

if to the Company, to: Avista Corporation
1411 East Mission Avenue
Spokane, Washington 99220
Attention: Treasurer

if to the Provider, to: Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: General Counsel

if to the Registrar or the Paying Agent, to such address as is designated in writing by it to the Trustee and the Issuer; if to any Auction Agent, at the address specified in the Auction Agreement; and if to any Remarketing Agent, at the address specified in the Remarketing Agreement. Any of the foregoing may, by notice given hereunder to each of the others, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent hereunder. Any communications required to be given hereunder by the Company shall be given by an Authorized Company Representative.

SECTION 13.09. HOLIDAYS. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall not be a Business Day, such payment may, unless otherwise provided in this Indenture or the Agreement, be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Indenture, and no interest shall accrue for the period after such nominal date.

SECTION 13.10. PURCHASE OF BONDS BY TRUSTEE AND REMARKETING AGENT. The Trustee and the Issuer agree that in connection with the purchase of any Bonds pursuant to this Indenture, the Trustee and the Remarketing Agent are acting solely on behalf of the Company.

SECTION 13.11. NOTICES TO MOODY'S AND S&P. The Trustee shall provide prior written notice to Moody's (if the Bonds are then rated by Moody's) and to S&P (if the Bonds are then rated by S&P) of (a) the payment of the principal of all of the Bonds, (b) the resignation or removal of the Trustee or the Remarketing Agent, (c) any modifications, alterations, amendments or supplements of this Indenture, the Agreement and the Remarketing Agreement, and (d) the conversion under Article II hereof of the method by which interest on the Bonds is determined.

The agreement of the Trustee herein to give notices to Moody's and S&P has been made as a matter of courtesy and accommodation only and the Trustee shall not be liable to any Person for any failure to give any such notice.

SECTION 13.12. RIGHTS OF PROVIDER. Upon a Change of Credit Facility, all rights provided herein to a Provider other than its right of subrogation pursuant to Section 2.17(f) shall be of no force and effect with respect to the Provider and Credit Facility which has been replaced and shall apply only to the new Provider and Credit Facility.

IN WITNESS WHEREOF, CITY OF FORSYTH, MONTANA, has caused this Indenture to be signed in its name and behalf by the Mayor, and its official seal to be hereunto affixed and attested by the City Clerk-Treasurer and to evidence its acceptance of the trusts hereby created the Trustee has caused this Indenture to be signed in its name and behalf by one of its Assistant Vice Presidents, all as of September 1, 1999.

CITY OF FORSYTH, MONTANA

By:

Mayor

[SEAL]

ATTEST:

- ---
City Clerk-Treasurer

CHASE MANHATTAN BANK AND TRUST
COMPANY, NATIONAL ASSOCIATION,
as Trustee

By:

Assistant Vice President

EXHIBIT A

[FORM OF BOND]

STATEMENT OF INSURANCE

Municipal Bond Insurance Policy No. _____ (the "Policy") with respect to payments due for principal of and interest on this bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to the United States Trust Company of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

REGISTERED REGISTERED

No. R-__ $_____

UNITED STATES OF AMERICA

STATE OF MONTANA

CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999A

MATURITY DATE	ISSUE DATE	CUSIP NO.
October 1, 2032	September ___, 1999	_____

[FLEXIBLE INTEREST RATE: _____

LAST DAY OF FLEXIBLE SEGMENT: _____

NUMBER OF DAYS IN FLEXIBLE SEGMENT: _____

AMOUNT OF INTEREST TO ACCRUE DURING FLEXIBLE SEGMENT: ___]*

- --------

* To be included only in Bonds bearing interest at a Flexible Interest Rate and not registered in the book-entry system pursuant to Section 2.16 of the Indenture.

Registered Owner: _____

Principal Amount: ----------DOLLARS----------

CITY OF FORSYTH, MONTANA (the "Issuer"), a political subdivision duly organized and existing under the Constitution and laws of the State of Montana, for value received, hereby promises to pay (but only out of the source hereinafter provided) to the registered owner identified above, or registered assigns, on October 1, 2032, the principal amount set forth above and to pay (but only out of the sources hereinafter provided) interest on the balance of said principal amount from time to time remaining unpaid from the Interest Payment Date (as defined in the Indenture) next preceding the date of registration and authentication hereof unless this Bond (as hereinafter defined) is registered and authenticated after a Record Date (as defined in the Indenture) and on or prior to the related Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless this Bond is registered and authenticated before the Record Date for the first Interest Payment Date, in which event this Bond shall bear interest from the Issue Date set forth above (the "Issue Date"); provided, however, that if, as shown by the records of the Paying Agent (as hereinafter defined), interest on the Bonds (as hereinafter defined) shall be in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date, until payment of said principal amount has been made or duly provided for, at the rates and on the dates determined as described herein and in the Indenture (as hereinafter defined), and to pay (but only out of the sources hereinafter provided) interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate then borne by this Bond, except as the provisions hereinafter set forth with respect to redemption, purchase or acceleration prior to maturity may become applicable hereto. The principal of and premium, if any, on this Bond are payable in lawful money of the United States of America at the principal corporate trust office in San Francisco, California, of Chase Manhattan Bank and Trust Company, National Association, or its successors and assigns, as Paying Agent (the "Paying Agent"). Interest payments on this Bond shall be made by the Paying Agent to the registered owner hereof as of the close of business on the Record Date with respect to each Interest Payment Date and shall be paid:

(a) in respect of any Bond that is registered in the book-entry system, pursuant to the Indenture, in immediately available funds by no later than 2:30 p.m., New York, New York time, and

(b) in respect of any Bond that is not registered in the book-entry system,

(i) by bank check mailed by first-class mail on the Interest Payment Date to the registered owner hereof at its address as it appears on the registration books of Chase Manhattan Bank and Trust Company, National Association, as registrar (the "Registrar") or at such other address as is furnished in writing by such registered owner to the Registrar, or

(ii) during any Rate Period (as defined in the Indenture) other than a Term Interest Rate Period (as defined in the Indenture), in immediately available funds on the Interest Payment Date (by wire transfer or by deposit to the account of the registered owner of this Bond if such account is maintained with the Paying Agent),

but in respect of any registered owner of any Bond or Bonds in a PARS Rate Period (as defined in the Indenture) or a Daily Interest Rate Period (as defined in the Indenture) or a Weekly Interest Rate Period (as defined in the Indenture) or a Flexible Interest Rate Period (as defined in the Indenture), only to any registered owner that owns Bonds in an aggregate principal amount of at least $1,000,000 on such Record Date, according to the written instructions given by the registered owner hereof to the Paying Agent or, if no such instructions have been provided as of the Record Date, by bank check mailed by first-class mail on the Interest Payment Date to the registered owner at such registered owner's address as it appears as of the Record Date on the registration books of the Registrar. Notwithstanding the foregoing, interest in respect of any Bond bearing a Flexible Rate (as defined in the Indenture) shall be paid only upon presentation to Chase Manhattan Bank and Trust Company, National Association, as Trustee (the "Trustee") of the Bond on which such payment is due.

THIS BOND AND ALL OTHER BONDS OF THE ISSUE OF WHICH IT FORMS A PART SHALL BE A LIMITED OBLIGATION OF THE ISSUER, SHALL NOT CONSTITUTE NOR GIVE RISE TO A GENERAL OBLIGATION OR LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS, AND SHALL NOT CONSTITUTE AN INDEBTEDNESS OF THE ISSUER OR OF THE STATE OF MONTANA, OR A LOAN OF CREDIT THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION.

This Bond is one of the duly authorized Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999A of the Issuer, originally issued in the aggregate principal amount of $66,700,000 (the "Bonds"), issued pursuant to proper action duly adopted by the Issuer on May 11, 1999 and May 18, 1999, and the applicable provisions of Sections 90-5-101 to 90-5-114, inclusive, Montana Code Annotated, as amended (the "Act"), and executed under a Trust Indenture, dated as of September 1, 1999 (the "Indenture"), between the Issuer and Chase Manhattan Bank and Trust Company, National Association, as trustee (the "Trustee," which term shall include any successor Trustee), for the purpose of providing the funds necessary for the refunding of certain pollution control revenue bonds previously issued by the Issuer to finance certain pollution control facilities owned by Avista Corporation, a Washington corporation (the "Company"). Pursuant to the Loan Agreement, dated as of September 1, 1999 (the "Loan Agreement"), between the Issuer and the Company, the proceeds of the Bonds have been loaned to the Company.

This Bond and all other Bonds of the issue of which it forms a part are issued pursuant to and in full compliance with the Constitution and laws of the State of Montana, particularly the Act, and pursuant to further proceedings adopted by the governing authority of the Issuer, which proceedings authorize the execution and delivery of the Indenture. This Bond and the issue of which it forms a part are limited and not general obligations of the Issuer payable solely from the Revenues (as defined in the Indenture) and amounts derived under the Loan Agreement and pledged under the Indenture consisting of all amounts payable from time to time by the Company

in respect of the indebtedness under the Loan Agreement and all receipts of the Trustee credited under the provisions of the Indenture against said amounts payable. No Owner of any Bond issued under the Act has the right to compel any exercise of the taxing power of the Issuer to pay the Bonds, or the interest or premium if any, thereon. The Bonds shall not constitute an indebtedness or a general obligation of the Issuer or a loan of credit thereof within the meaning of any constitutional or statutory provision, nor shall any of the Bonds constitute or give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing powers.

Any term used herein as a defined term but not defined herein shall be defined as in the Indenture.

In the manner hereinafter provided and subject to the provisions of the Indenture, the term of the Bonds will be divided into consecutive Rate Periods during each of which the Bonds shall bear interest at the lesser of (a) Maximum Interest Rate (as defined in the Indenture) or (b) either the PARS Rate (the "PARS Rate Period"), the Daily Interest Rate (the "Daily Interest Rate Period"), the Weekly Interest Rate (the "Weekly Interest Rate Period"), the Term Interest Rate (the "Term Interest Rate Period") or the Flexible Interest Rate (the "Flexible Interest Rate Period"). Rate Periods for this Bond shall be determined in accordance with the Indenture.

This Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication hereof unless it is registered and authenticated after a Record Date and on or prior to the related Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless this Bond is registered and authenticated before the Record Date for the first Interest Payment Date, in which event this Bond shall bear interest from the Issue Date; provided, however, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date. Interest shall be computed, (a) in the case of a PARS Rate Period, on the basis of a 360-day year for the actual number of days elapsed except that interest during a six-month Auction Period shall be calculated on the basis of a 360-day year composed of twelve 30-day months, (b) in the case of a Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and (c) in the case of any other Rate Period, on the basis of a 365 or 366 day year, as appropriate, for the actual number of days elapsed. The term "Interest Payment Date" means (i) with respect to any PARS Rate Period, the Business Day immediately following the Initial Period and (y) when used with respect to any Auction Period other than a daily Auction Period, the Business Day immediately following such Auction Period and (z) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (ii) with respect to any Daily or Weekly Interest Rate Period, the first Business Day of each calendar month, (iii) with respect to any Term Interest Rate Period, the first day of the sixth month following the commencement of the Term Interest Rate Period and the first day of each sixth month thereafter, and the day following the last day of a Term Interest Rate Period, (iv) with respect to any Flexible Segment, the Business Day next succeeding the last day thereof, and (v) with respect to any Rate Period, the day next succeeding the last day thereof. The term "Business Day" means any day except a Saturday, Sunday or other day (a) on which commercial banks located in the cities in which the Principal Office of the Trustee, the Principal

Office of the Company, the Principal Office of the Remarketing Agent or the Principal Office of the Paying Agent are located are required or authorized by law to remain closed or are closed, or (b) on which The New York Stock Exchange is closed.

The Bonds shall be deliverable in the form of registered Bonds without coupons in the following denominations: (i) $25,000 or any integral multiple of $25,000 when the Bonds bear interest at a PARS Rate; (ii) $100,000 or any integral multiple of $100,000 when the Bonds bear interest at a Daily or Weekly Interest Rate; (iii) $100,000 or any integral multiple of $5,000 in excess of $100,000 when the Bonds bear interest at a Flexible Interest Rate; and (iv) $5,000 or integral multiples of $5,000 when the Bonds bear interest at a Term Interest Rate (such denominations being referred to herein as ("Authorized Denominations").

As provided in the Loan Agreement, the Company may, at its option, provide for a Change of Credit Facility (as defined in the Indenture), which includes the delivery or termination (or a combination thereof) of one or more letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit, first mortgage bonds or other security instruments or liquidity devices.

During each PARS Rate Period, the Bonds shall bear interest, determined in accordance with the provisions of the Indenture, by the Auction Agent for each Auction Period.

During each Daily Interest Rate Period, the Bonds shall bear interest at a Daily Interest Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on each Business Day for such Business Day. If the Remarketing Agent shall not have determined a Daily Interest Rate for any day by 10:00 a.m., New York, New York time, the Daily Interest Rate for such day shall be the same as the Daily Interest Rate for the immediately preceding day.

During each Weekly Interest Rate Period, the Bonds shall bear interest at a Weekly Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent no later than the first day of such Weekly Interest Rate Period and thereafter no later than Tuesday of each week during such Weekly Interest Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Interest Rate shall be determined by the Remarketing Agent no later than the Business Day next preceding such Tuesday.

During each Term Interest Rate Period, the Bonds shall bear interest at the Term Interest Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on a Business Day selected by the Remarketing Agent but no more than 60 days prior to and not later than the effective date of such Term Interest Rate Period.

During each Flexible Interest Rate Period, each Bond shall bear interest during each Flexible Segment for such Bond at the Flexible Interest Rate for such Bond as described in the Indenture. Each Flexible Segment and Flexible Interest Rate shall be determined in accordance with the provisions of the Indenture by the Remarketing Agent. Each Flexible Segment shall be a period of not less than one nor more than 270 days.

At the times and subject to the conditions set forth in the Indenture, the Company may elect that the Bonds shall bear interest at an interest rate, and for a period, different from those then applicable. The Trustee shall give notice of any such adjustment to the owners of the Bonds not less than 15 days prior to the effective date of such adjustment.

During any Daily Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof) upon (a) delivery to the Trustee at the Delivery Office of the Trustee, by not later than 11:00 a.m., New York, New York time, on such Business Day, of an irrevocable written notice or irrevocable notice by telephone, which states the principal amount and the certificate number (if the Bonds are not then held in book entry form) of such Bond and the date on which the same shall be purchased, and (b) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the owner thereof with the signature of such owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the date specified in such notice.

During any Weekly Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (a) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable written notice or an irrevocable notice by telephone (promptly confined by telecopy or other writing), by 5:00 p.m., New York, New York time, on any Business Day, which states the principal amount of such Bond and the certificate number (if the Bonds are not held in book-entry form) and the date on which the same shall be purchased, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee, and (b) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the date specified in such notice.

Any bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on the first day of any Term Interest Rate Period which is preceded by a Term Interest Rate Period of equal duration at a purchase price equal to 100% of the principal amount thereof, upon (i) delivery to the Trustee at the Delivery Office of the Trustee accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee of an irrevocable notice in writing by 5:00 p.m., New York, New York time, on any Business Day not

less than fifteen days before the purchase date, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond to be purchased and (ii) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the purchase date.

"Record Date" means (a) with respect to a PARS Rate Period other than a daily Auction Period, the second Business Day preceding an Interest Payment Date therefor and during a daily Auction Period, the last Business Day of the month preceding an Interest Payment Date therefor, (b) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or Flexible Segment, the Business Day next preceding such Interest Payment Date, (c) with respect to any Interest Payment Date in respect of any Term Interest Rate Period, the fifteenth day of the month preceding such Interest Payment Date (except as provided in the following clause (d); and (d) for any Interest Payment Date established pursuant to clause (e) of the definition of "Interest Payment Date" in Section 1.01 of the Indenture in respect of a Term Interest Rate Period, the Business Day next preceding such Interest Payment Date.

In each case in which a portion of a Bond is purchased, both the portion so purchased and the portion of such Bond not so purchased shall be in Authorized Denominations.

This Bond shall be subject to mandatory purchase at a purchase price equal to 100% of the principal amount thereof to the purchase date plus accrued interest, if any, to the purchase date: (a) on the effective date of any change in a Rate Period with respect to this Bond other than the effective date of a Term Interest Rate Period which was preceded by a Term Interest Rate Period of the same duration; (b) during any Flexible Interest Rate Period, on the day next succeeding the last day of any Flexible Segment thereof; and (c) in connection with a Change of Credit Facility, as provided in Section 3.02(a)(iii) of the Indenture.

The Bonds are also subject to mandatory purchase during any Term Interest Rate Period on a day that the Bonds would be subject to optional redemption pursuant to Section 4.02(b)(iv) of the Indenture, at a purchase price equal to 100% the principal amount thereof plus an amount equal to any premium which would have been payable on such redemption date had the Bonds been redeemed if the Company gives notice to the Trustee on or before the Business Day prior to the redemption date that it elects to have the Bonds purchased in lieu of redemption. If the Bonds are purchased on or prior to the Record Date, the purchase price shall include accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the amount specified in the preceding sentence). If the Bonds are purchased after the Record Date, the purchase price shall not include accrued interest.

BY ACCEPTANCE OF THIS BOND, THE REGISTERED OWNER HEREBY AGREES THAT, IF THIS BOND IS TO BE PURCHASED AND IF MONEYS SUFFICIENT TO PAY THE PURCHASE PRICE SHALL BE HELD BY THE TRUSTEE ON THE DATE THIS BOND IS TO BE PURCHASED, THIS BOND

SHALL BE DEEMED TO HAVE BEEN PURCHASED AND SHALL BE PURCHASED ACCORDING OF THE INDENTURE, WHETHER OR NOT THIS BOND SHALL HAVE BEEN DELIVERED TO THE TRUSTEE, AND THE OWNER OF THIS BOND SHALL HAVE NO CLAIM HEREON, UNDER THE INDENTURE OR OTHERWISE, FOR ANY AMOUNT OTHER THAN THE PURCHASE PRICE HEREOF.

The Bonds shall be redeemed in whole or in part, and if in part by lot, at any time at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Company stating that any of the following events has occurred and that the Company therefore intends to exercise its option to prepay the payments due under the Loan Agreement in whole or in part and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments: (a) the Company shall have determined or concurred in a determination that the continued operation of the Plant is impracticable, uneconomical or undesirable for any reason; (b) all or substantially all of the Plant shall have been condemned or taken by eminent domain; (c) the operation of the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body; (d) unreasonable burdens or excessive liabilities shall have been imposed upon the Company in respect of all or a part of the Pollution Control Facilities or the Plant including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreement, as well as any statute or regulation enacted or promulgated after the date of the Loan Agreement that prevents the Company from deducting interest in respect of the Agreement for federal income tax purposes; or (e) all or substantially all of the Project shall be transferred or sold to any entity other than an affiliate of the Company; provided, however, that in the case of a redemption under this paragraph, the redemption price of the Bonds shall be equal to 101% of the principal amount thereof, plus accrued interest to the date of redemption, unless a smaller or no premium would be due upon optional redemption of the Bonds as described in the following paragraph.

The Bonds shall be subject to redemption upon prepayment of the Loan Payments at the option of the Company, in whole, or in part by lot, prior to their maturity, as follows:

(a) While the Bonds bear interest at a PARS Rate, the Bonds shall be subject to such redemption on the date next succeeding the last day of any PARS Rate Period at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(b) While the Bonds bear interest at a Flexible Interest Rate or Rates, each Bond shall be subject to such redemption on the day next succeeding the last day of each Flexible Segment for such Bond at a redemption price equal to 100% of the principal amount thereof.

(c) While the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Bonds shall be subject to such redemption on any Business Day at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

(d) While the Bonds bear interest at a Term Interest Rate, the Bonds shall be subject to such redemption (1) on the day next succeeding the last day of each Term Interest Rate Period at a redemption price equal to the principal amount of the Bonds being redeemed plus accrued interest, if any, to the redemption date and (2) either (i) on the redemption dates and at the redemption prices specified by the Company pursuant to the next succeeding paragraph or (ii) during the redemption periods specified below, in each case in whole or in part, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

LENGTH OF TERM INTEREST RATE PERIOD	REDEMPTION DATES AND PRICES
Greater than or equal to 11 years	At any time on or after the first day of the calendar month following the tenth anniversary of the effective date at 102% declining 1% annually to 100%
Less than 11 years	Not redeemable

With respect to any Term Interest Rate Period, the Company may specify in a notice given to the Trustee redemption provisions, prices and periods other than those set forth above; provided, however, that such notice shall be accompanied by a Favorable Opinion of Bond Counsel to the effect that the proposed action is not prohibited by the laws of the State and the Indenture and will not adversely affect the Tax-Exempt status of the Bonds.

The Bonds shall be redeemed in whole on any date from amounts which are to be prepaid by the Company under the Loan Agreement, at a redemption price equal to 100% of the principal amount thereof plus interest accrued, if any, to the redemption date within 180 days after the occurrence of a Determination of Taxability; provided that if, in the Favorable Opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

A "Determination of Taxability" shall be deemed to have occurred if as a result of the Company's failure to observe any covenant, agreement or representation in the Loan Agreement, a final decree or judgment of any federal court or a final action of the Internal Revenue Service determines that interest paid or payable on any Bond is or was includible in the gross income of an Owner of the Bonds for federal income tax purposes under the Code (other than an Owner who is a "substantial user" or "related person" within the meaning of Section 103(b)(13) of the 1954 Code. However, no such decree or action will be considered final for this purpose unless the Company has been given written notice and, if it is so desired and is legally allowed, has been afforded the opportunity to contest the same, either directly or in the name of any Owner of a Bond, and until conclusion of any appellate review, if sought.

Notice of any optional or mandatory redemption shall be given by first-class mail not less than 15 days nor more than 60 days prior to the date fixed for redemption to the Owners of Bonds at the address shown on the registration books of the Registrar on the date such notice is mailed. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that, following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor and of Authorized Denominations.

This Bond is transferable by the person in whose name it is registered, in person, or by its attorney duly authorized in writing, at the Principal Office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. Upon such transfer a new fully registered Bond or Bonds in Authorized Denominations, for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

The Issuer, the Registrar, the Trustee and any agent of the Issuer, the Registrar or the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and neither the Issuer, the Registrar, the Trustee, any paying agent nor any such agent shall be affected by notice to the contrary.

The Bonds are equally and ratably secured, to the extent provided in the Indenture, by the pledge thereunder of the "Revenues," which term is used herein as defined in the Indenture and which as therein defined means all moneys paid or payable to the Trustee for the account of the Issuer in accordance with the Loan Agreement and all receipts credited under the provisions of the Indenture against such payments; provided, however, that "Revenues" shall not include moneys held by the Trustee to pay the purchase price of Bonds subject to purchase pursuant to the Indenture. The Issuer has also pledged and assigned to the Trustee as security for the Bonds all other rights and interests of the Issuer under the Loan Agreement (other than its rights to indemnification and certain administrative expenses and certain other rights).

The Owner of this Bond shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

With certain exceptions as provided therein, the Indenture and the Loan Agreement may be modified or amended only with the consent of the Provider (unless a Provider Default as

specified in the Indenture shall have occurred and be continuing) and the Owners of not less than 60% in aggregate principal amount of all Bonds then Outstanding under the Indenture.

Reference is hereby made to the Indenture, the Loan Agreement, the Credit Facility and the Tax Certificate, copies of which are on file with the Trustee, for the provisions, among others, with respect to the nature and extent of the rights, duties and obligations of the Issuer, the Company, the Trustee, the Registrar, the Remarketing Agent and the Owners of the Bonds. The Owner of this Bond, by the acceptance hereof, is deemed to have agreed and consented to and to be bound by the terms and provisions of the indenture, the Loan Agreement and the Tax Certificate.

The Indenture prescribes the manner in which it may be discharged, including (a) a provision that the Bonds shall be deemed to be paid if moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee, the Registrar, the Provider and the Remarketing Agent, shall have been deposited with the Trustee, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of delivery of the Bonds to the Trustee for purchase, and (b) a provision that, if the Bonds mature or are called for redemption prior to the next date upon which the Bonds are subject to purchase pursuant to the Indenture, and if the Company waives its right to convert the interest rate borne by the Bonds, the Bonds shall be deemed to be paid if Government Obligations, as defined therein, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee and the Registrar, shall have been deposited with the Trustee, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of such payment.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future officer, elected official agent or employee of the Issuer, or any incorporator, officer, director or member of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, officer, director or member is hereby expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the issuance of this Bond and the issue of which it forms a part, together with all other obligations of the Issuer, does not exceed or violate any constitutional or statutory limitation of indebtedness.

This Bond shall not be entitled to any security or benefit under the Indenture, or be valid or become obligatory for any purpose, until this Bond shall have been authenticated by the execution by the Registrar of the certificate of authentication inscribed hereon.

IN WITNESS WHEREOF, CITY OF FORSYTH, MONTANA, has caused this Bond to be executed in its name with the signature of its Mayor and attested by the signature of its City Clerk-Treasurer, all as of the Issue Date specified above.

CITY OF FORSYTH, MONTANA

By:

Mayor

[SEAL]

ATTEST:

- ---
City Clerk-Treasurer

[FORM OF TRUSTEE'S CERTIFICATE]

CERTIFICATE OF AUTHENTICATION

This is to certify that this Bond is one of the Bonds of the Series described in the within-mentioned Indenture.

CHASE MANHATTAN BANK AND TRUST
COMPANY, NATIONAL ASSOCIATION,
as Registrar

By:

Authorized Signatory

Date of registration and authentication: _____

[FORM OF ASSIGNMENT]

The following abbreviations, when used in the inscription on the face the within Bond shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	UNIF GIFT MIN ACT--
TEN ENT -- as tenants by the entirety	_____ Custodian _____
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	(Cust) (Minor) under Uniform Gifts to Minors Act of _____ (State)

Additional abbreviations may also be used though not in the list above.

For value received _____ hereby sells, assigns and transfers unto

INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

(Please Print or Typewrite Name and Address of Assignee)

the within Bond of the CITY OF FORSYTH, MONTANA, and hereby irrevocably constitutes and appoints _____ attorney to register the transfer of said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____Signature: _____

SIGNATURE GUARANTEED:

_____

NOTICE: Signature(s) must be guaranteed by an "eligible guarantor institution" that is a member of or a participant in a "signature guarantee program" (e.g., the Securities Transfer Agents Medallion Program, the Stock Exchange Medallion Program or the New York Stock Exchange, Inc. Medallion Signature Program).

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

PARS AUCTION PROCEDURES

SECTION 1.01. AUCTION PROCEDURES. While the Bonds bear interest at the PARS Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Rate Period commencing after the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System; (ii) each Rate Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Rate Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Exhibit B.

SECTION 1.02. ORDERS BY EXISTING OWNERS AND POTENTIAL OWNERS.

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of the PARS Rate Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of the PARS Rate Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of the PARS Rate Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the PARS Rate Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the PARS Rate Bonds, if any, which each such Potential Owner irrevocably

offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) of this subsection (a) is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) of this subsection (a) is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) of this subsection (a) is herein referred to as a "Sell Order."

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the PARS Rate Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the PARS Rate Bonds to be determined as set forth in subsection (a)(v) of Section 1.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the PARS Rate Bonds to be determined as set forth in subsection (b)(iv) of Section 1.05 hereof if such specified rate shall be higher than the Maximum PARS Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the PARS Rate Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the PARS Rate Bonds as set forth in subsection (b)(iv) of Section 1.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the PARS Rate Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the PARS Rate Bonds as set forth in subsection (a)(vi) of Section 1.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the PARS Rate Bonds to be held, purchased or sold in a principal amount which is not $25,000 or an integral multiple thereof shall be rounded down to the nearest $25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a PARS Rate Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a PARS Rate Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction;

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the Issuer of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any PARS Rate Bond when due (provided however that for purposes of this provision only payment by the Provider of the Credit Facility shall be deemed to cure such Event of Default and no such suspension of the Auction Procedures shall occur) but shall resume two Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter; and

(v) while the PARS Rate Bonds are in a PARS daily Auction Period, all PARS will be Tranche I PARS.

SECTION 1.03. SUBMISSION OF ORDERS BY BROKER-DEALERS TO AUCTION AGENT.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the PARS Rate Bonds that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the PARS Rate Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the PARS Rate Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the PARS Rate Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the PARS Rate Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the PARS Rate Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the PARS Rate Bonds held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of the PARS Rate Bonds held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of the Outstanding PARS Rate Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of the PARS Rate Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the principal amount of the PARS Rate Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the principal amount of the PARS Rate Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above,

(C) subject to clause (A), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the principal amount of the PARS Rate Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above, and

(D) the principal amount, if any, of such PARS Rate Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of the PARS Rate Bonds equal to the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the sum of the principal amount of the PARS Rate Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the PARS Rate Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of the PARS Rate Bonds specified therein.

(f) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum PARS Rate shall be treated as a Bid specifying the Minimum PARS Rate.

(g) Neither the Company, the Issuer, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

SECTION 1.04. DETERMINATION OF PARS RATE.

(a) Not later than 9:30 a.m., New York, New York time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the Minimum PARS Rate, the Maximum PARS Rate and the PARS Index.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rates.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission of the Auction Rates and the aggregate principal amount of each Tranche for the next succeeding Auction Period.

(d) In the event the Auction Agent shall fail to calculate, or for any reason fail to timely provide the Auction Rates for any Auction Period, the PARS Rate for such Auction Period shall be the applicable No Auction Rate provided, however, that if the Auction Procedures are suspended pursuant to Section 1.02(iv), the PARS Rates for the next succeeding Auction Period shall be the Maximum PARS Rate.

(e) In the event of a failed conversion to a Daily Interest Rate Period, a Weekly Interest Rate Period, a Flexible Interest Rate Period or a Term Interest Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the PARS Rate for the next Auction Period shall be the Maximum PARS Rate and the Auction Period shall be a seven-day Auction Period.

SECTION 1.05. ALLOCATION OF THE PARS RATE BONDS.

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the PARS Rate Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the PARS Rate Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the PARS Rate Bonds obtained by multiplying (A) the aggregate principal amount of the Outstanding PARS Rate Bonds

which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding PARS Rate Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding PARS Rate Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of the PARS Rate Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the PARS Rate Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the PARS Rate Bonds obtained by multiplying (A) the aggregate principal amount of the Outstanding PARS Rate Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding PARS Rate Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of the Outstanding PARS Rate Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum PARS Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum PARS Rate shall be accepted, thus requiring each such Potential Owner to purchase the PARS Rate Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum PARS Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of

the PARS Rate Bonds obtained by multiplying (A) the aggregate principal amount of the PARS Rate Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of the Outstanding PARS Rate Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of the Outstanding PARS Rate Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the PARS Rate Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum PARS Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the PARS Rate Bonds which is not an integral multiple of $25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the PARS Rate Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the PARS Rate Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any the PARS Rate Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $25,000 in principal amount of the PARS Rate Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the PARS Rate Bonds for purchase among Potential Owners so that the principal amount of PARS purchased on such Auction Date by any Potential Owner shall be an integral multiple of $25,000, even if such allocation results in one or more of such Potential Owners not purchasing the PARS Rate Bonds on such Auction Date.

SECTION 1.06. NOTICE OF PARS RATE.

(a) On each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the PARS Rate fixed for the succeeding Auction Period or, in the case of PARS Rate Bonds in a daily Auction Period, the PARS Rate on the PARS Rate Bonds fixed for the current Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of the PARS Rate Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the PARS Rate Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the PARS Rate Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the PARS Rate Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of the PARS Rate Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the PARS Rate Bonds to be purchased pursuant to such Bid (including, with respect to the PARS Rate Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such PARS Rate Bond) against receipt of such the PARS Rate Bonds;

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the PARS Rate Bonds to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the PARS Rate for the next succeeding Auction Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the Auction Date of the next succeeding Auction or, in the case of PARS Rate Bonds in a daily Auction Period, the PARS Rate for the current Auction Period; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date of the next succeeding Auction.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b)(ii) above, and any PARS Rate Bonds received by it pursuant to (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date or, in the case of PARS Rate Bonds in a daily Auction Period, on such Auction Date, the Securities Depository shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of PARS Rate Bonds as determined in the Auction.

SECTION 1.07. PARS INDEX.

(a) the PARS Index on any Auction Date with respect to the PARS Rate Bonds in any Auction Period other than a six-month Auction Period shall be the Seven-Day "AA" Composite Commercial Paper Rate on such date. The PARS Index respect to the PARS Rate Bonds in a six-month Auction Period shall be the Six-Month Treasury Bill Rate, as last published in The Bond Buyer. If either rate is unavailable, the PARS Index shall be a rate agreed to by all Broker-Dealers and consented to by the Issuer.

"Seven-Day `AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the seven-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Goldman, Sachs & Co., Lehman Commercial Paper Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definitions of Seven-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Seven-Day "AA" Composite Commercial Paper Rate, the

Seven-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley Dean Witter or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee (who shall be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

(b) If for any reason on any Auction Date the PARS Index shall not be determined as hereinabove provided in this Section, the PARS Index shall be the PARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the PARS Index as provided herein shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the PARS Rate Bonds.

SECTION 1.08. MISCELLANEOUS PROVISIONS REGARDING AUCTIONS.

(a) In this Exhibit B, each reference to the purchase, sale or holding of "PARS Rate Bonds" shall refer to beneficial interests in the PARS Rate Bonds, unless the context clearly requires otherwise.

(b) During a PARS Rate Period, the provisions of Section 1.02 hereof and this Exhibit B may be amended pursuant to Section 12.02 of the Indenture by obtaining the consent of the Provider of the Credit Facility and the owners of all Outstanding PARS Rate Bonds bearing interest at the PARS Rates as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the Owners of the Outstanding PARS as required by Section 12.02, (i) Sufficient Clearing Bids have been received or all of the PARS are subject to Submitted Hold Orders, and (ii) there is delivered to the Issuer and the Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the owners of all Outstanding PARS. Notwithstanding the foregoing, for so long as Goldman, Sachs & Co. is a Broker-Dealer, there may not be a change in the definitions of Broker-Dealer Rate, Tranche I PARS or Tranche II PARS without the consent of Goldman, Sachs & Co.

(c) During a PARS Rate Period, so long as the ownership of the PARS Rate Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a the PARS Rate Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Master Purchaser's Letter to the Auction Agent, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the PARS Rate Bonds from a customer of a Broker-Dealer

who is listed on the records of that Broker-Dealer as the Owner of such PARS Rate Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 1.08 if such Broker-Dealer remains the Existing Owner of the PARS Rate Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

SECTION 1.09. CHANGES IN AUCTION PERIOD OR AUCTION DATE.

(a) Changes in Auction Period.

(i) During any PARS Rate Period, the Company, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to the PARS Rate Bonds between daily, seven days, 28 days, 35 days and six months in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such PARS Rate Bonds. The Company shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers, the Provider of the Credit Facility and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven days, 28 days, 35 days or six months and shall be for all of the PARS Rate Bonds in a PARS Rate Period.

(iii) The change in the length of the Auction Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its the PARS Rate Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in the first sentence of this paragraph (iv) is not met, the Auction Rate for the next Auction Period shall be the Maximum PARS Rate, and the Auction Period shall be a seven-day Auction Period.

(v) On the conversion date for the PARS Rate Bonds selected for conversion from one Auction Period to another, any PARS Rate Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any PARS Rate Period, the Auction Agent, with the written consent of the Issuer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in

accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the PARS Rate Bonds. The Issuer shall not consent to such change in the Auction Date unless it shall have received from the Auction Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Company, the Issuer, the Broker-Dealers and the Securities Depository.

(c) Changes Conditioned on Ratings. Notwithstanding anything herein to the contrary, prior to any change in the duration of an Auction Period, the Trustee shall receive written evidence from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Change of Credit Facility and that such Change of Credit Facility will not, by itself, result in a reduction, suspension or withdrawal of its rating or ratings of the Bonds.

SECTION 1.10. AUCTION AGENT.

(a) The initial Auction Agent shall be IBJ Whitehall Bank & Trust Company, New York, New York, or any successor appointed by the Trustee, at the written direction of the Company, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Issuer, the Trustee, the Company and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the PARS Rate Bonds with the same rights as if such entity were not the Auction Agent.

SECTION 1.11. QUALIFICATIONS OF AUCTION AGENT: RESIGNATION; REMOVAL. The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all of the duties imposed upon it by this Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least ninety (90) days notice to the Issuer, the Company, the Trustee and the Provider. The Auction Agent may be removed at any time by the Company by written notice, delivered to the Auction Agent, the Company, the Trustee and the Provider. Upon any such resignation or removal, the Trustee shall, at the direction of the Company, appoint a successor Auction Agent meeting the requirements of this Section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and the PARS Rate Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties

hereunder until its successor has been appointed by the Issuer. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Issuer, the Company, the Trustee and the Provider even if a successor Auction Agent has not been appointed.

EXHIBIT 4(b)-3

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LOAN AGREEMENT

BETWEEN

CITY OF FORSYTH, MONTANA

AND

AVISTA CORPORATION

$17,000,000
CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999B

DATED AS OF SEPTEMBER 1, 1999

==========

The amounts payable to the Issuer and certain other rights of the Issuer under this Loan Agreement (except for amounts payable to, and certain rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 hereof and any rights of the Issuer to receive notices, certificates, requests, requisitions, directions and other communications hereunder) have been pledged and assigned to Chase Manhattan Bank and Trust Company, National Association, as Trustee under the Trust Indenture, dated as of September 1, 1999, from the Issuer. For the purpose of perfecting the security interest of such Trustee in such amounts payable and such rights assigned to such Trustee under the Montana Uniform Commercial Code --Secured Transactions, the counterpart of this Loan Agreement actually delivered to the Trustee shall be deemed the original thereof.

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This counterpart of the Loan Agreement has been actually delivered to the Trustee and the Trustee acknowledges receipt thereof.

CHASE MANHATTAN BANK AND TRUST
COMPANY, NATIONAL ASSOCIATION, as Trustee

By
Authorized Officer

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LOAN AGREEMENT

This LOAN AGREEMENT, dated as of September 1, 1999, is between the CITY OF FORSYTH, MONTANA, a political subdivision duly organized and existing under the Constitution and laws of the State (the "Issuer"), and AVISTA CORPORATION, a corporation duly organized under the laws of the State of Washington and duly qualified to conduct business in the State (the "Company").

RECITALS:

A. The Issuer is authorized by the provisions of the Act to issue one or more series of its revenue bonds to finance all or part of the cost of projects consisting of exempt facilities (as such term is used in the Code) located within the territorial limits of the Issuer.

B. The Act provides that payment of the principal of and interest on revenue bonds issued thereunder shall be secured by a pledge of the revenues out of which such revenue bonds shall be payable and may be secured by a pledge of an agreement relating to a project.

C. The Issuer has previously issued the Prior Bonds on behalf of the Company for the purpose of refinancing a portion of the costs of acquiring and improving the Project.

D. The Issuer is authorized by the Act to issue its revenue refunding bonds to refund the Prior Bonds.

E. By proper action of its governing body taken pursuant to and in accordance with the provisions of the Act, the Issuer has authorized and undertaken to issue its Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999B and the issuance of the Bonds to refund the Prior Bonds is authorized by the provisions of the Act.

F. The issuance of the Bonds to refund the Prior Bonds will provide financing on more advantageous terms for the cost of the Project financed by the Prior Bonds.

G. The Bonds shall be issued under and pursuant to the Trust Indenture, dated as of September 1, 1999, between the Issuer and Chase Manhattan Bank and Trust Company, National Association, as Trustee, pursuant to which the Issuer shall pledge and assign to the Trustee certain rights of the Issuer hereunder.

H. Pursuant to this Agreement, the Issuer will loan the proceeds of the Bonds to the Company to provide financing for the Project, and the Company agrees to make, or cause to be made, payments sufficient to pay when due (whether at stated maturity, by acceleration or otherwise) the principal of and premium, if any, and interest on the Bonds.

I. The Company agrees under this Agreement to pay, or cause to be paid, when due, the purchase price of Bonds purchased pursuant to the terms of the Indenture.

J. The issuance, sale and delivery of the Bonds and the execution and delivery of this Agreement and the Indenture have been in all respects duly and validly authorized in accordance with the Act and the Bond Resolution.

K. The Company and Ambac Assurance Corporation, a Wisconsin stock insurance company, as Provider of the Credit Facility, have agreed to enter into that certain Insurance Agreement, dated as of September 1, 1999, pursuant to which the Provider is to issue its Municipal Bond Insurance Policy to guarantee payment of the principal of the Bonds upon the stated maturity thereof, the redemption price of the Bonds upon certain mandatory redemption and interest on the Bonds as the same accrues and becomes due and payable.

In consideration of the respective representations and agreements contained in this Agreement, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

All words and terms used but not otherwise defined in this Agreement, shall for all purposes of this Agreement have the meanings specified in Article I of the Indenture, unless the context clearly requires otherwise. In addition, the following words and terms shall have the following meanings when used in this Agreement:

"Affiliate" means any entity controlling, controlled by or under common control with the Company.

"Indenture" means the Trust Indenture, dated as of September 1, 1999, between the Issuer and the Trustee, relating to the issuance of the Bonds as such Trust Indenture may be supplemented and amended from time to time as therein permitted.

The words "hereto," "hereunder" and other words of similar import refer to this Agreement as a whole.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND AGREEMENTS

SECTION 2.01. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF ISSUER. The Issuer represents, warrants and agrees that:

(a) The Issuer is a political subdivision of the State, duly organized and validly existing under the Constitution and laws of the State.

(b) Under the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and the Indenture and to carry out its obligations

hereunder and thereunder, including the issuance and sale of the Bonds. By proper action of its governing body, the Issuer has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture and to issue and sell the Bonds and has made all determinations and findings as and where required by Section 90-5-106 of the Act.

(c) The aggregate principal amount of the Bonds authorized to be issued under the Indenture for the purpose of refunding the Prior Bonds does not exceed the aggregate principal amount of the Prior Bonds now outstanding.

(d) The Prior Agreement and the Prior Indenture are each in full force and effect and have not been amended or supplemented.

(e) The proceeds of the sale of the Bonds (i) will be deposited with the Prior Trustee for deposit into the Prior Bond Fund to provide a portion of the moneys necessary for the Refunding and (ii) will be applied by the Prior Trustee to redeem the Prior Bonds pursuant to the Prior Indenture on the Redemption Date. The Prior Bonds are now outstanding in the principal amount of $17,000,000. Prior to the issuance and delivery of the Bonds, the Prior Trustee will be given irrevocable instructions and will be directed to call all of the Prior Bonds for redemption on the Redemption Date.

(f) The Bonds are to be issued under and secured by the Indenture, pursuant to which certain of the Issuer's right, title and interest in this Agreement and the revenues derived by the Issuer pursuant to this Agreement will be pledged and assigned to the Trustee as security for payment of the principal and purchase price of, premium, if any, and interest on the Bonds.

(g) Neither the execution and delivery of this Agreement or the Indenture, the issuance and sale of the Bonds, the consummation of the transactions contemplated hereby and thereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, the Tax Certificate, the Indenture or the Bonds conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Issuer is now a party or by which it is bound, or constitutes a default under any of the foregoing.

(h) The Issuer has not assigned or pledged and will not assign or pledge its interest in this Agreement other than to secure the Bonds.

(i) To the knowledge of the Issuer, after due inquiry, no litigation is pending or threatened against the Issuer to restrain or enjoin the issuance or sale of the Bonds or in any way affecting any authority for or the validity of the Bonds, the Indenture, this Agreement or the existence or powers of the Issuer or the right of the Issuer under the Act to refinance a portion of the costs of the Project through the issuance of the Bonds.

(j) To the knowledge of the Issuer, after due inquiry, no event has occurred and no condition exists which, upon the issuance of the Bonds, would constitute an event of default on the part of the Issuer under the Prior Indenture.

(k) The Issuer will not knowingly take or omit to take any action reasonably within its control the taking or omission of which would adversely affect the Tax-Exempt status of the Bonds. The Issuer will file or cause to be filed with the United States Department of Treasury the information required by Section 149(e) of the Code.

(l) A public hearing relating to the Refunding for the Project was held on May 4, 1999, following public notice thereof, pursuant to Section 147(f) of the Code, and the public hearing and approval requirements of Section 147(f) of the Code have been satisfied.

(m) Within the meaning of Sections 2-2-121 and 2-2-125, Montana Code Annotated, as amended, no "public officer," "public employee," "officer" or "employee" of the Issuer is engaged as counsel, consultant, representative, or agents of the Company, or has a substantial financial interest in the Company. None of the officers, deputies, or employees of the Issuer or employees having terminated their employment with the Issuer within the six months immediately preceding this Agreement are "interested in" this Agreement, the Indenture, the Bonds or the transactions contemplated thereby, within the meaning of Section 2-2-201, Montana Code Annotated, as amended.

Concurrently with the initial authentication and delivery of the Bonds under the Indenture, the Issuer shall execute and deliver a certificate reaffirming the foregoing representations, warranties and agreements as of the date thereof.

SECTION 2.02. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF COMPANY. The Company represents, warrants and agrees that:

(a) It is a corporation duly organized and validly existing under the laws of the State of Washington and duly qualified as a foreign corporation in good standing in the State, is not in violation of any provision of its Articles of Incorporation or its Bylaws, in each case as the same have been amended, has full corporate power to own its properties and conduct its business, and has the corporate power to enter into, and by proper corporate action has duly authorized the execution and delivery of, this Agreement and the Tax Certificate.

(b) Neither the execution and delivery of this Agreement or the Tax Certificate, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement or the Tax Certificate conflicts with or will result in a breach of any of the terms, conditions or provisions of any law or judgment to which the Company or its property or assets are subject or of any corporate restriction contained in its Articles of Incorporation or its Bylaws, in each case as the same have been amended, or any agreement or instrument to which the Company is now a party or by which it is bound, or constitutes, with or without the giving of notice or lapse of time or both, a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Company under the terms of any instrument or agreement.

(c) This Agreement has been duly and validly authorized, executed and delivered by the Company and is a legal, valid and binding obligation of the Company, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, usury or other similar laws affecting the rights of creditors generally, equitable principles relating to the availability of remedies and principles of public or governmental policy limiting the enforceability of the indemnification and contribution provisions.

(d) Other than the orders of the Washington Utilities and Transportation Commission, the California Public Utilities Commission, the Idaho Public Utilities Commission and the Oregon Public Utility Commission and the approval by the Issuer, all of which orders and approvals will have been received and be in effect prior to the initial authentication and delivery of the Bonds, no consent, approval, authorization or order of, or registration with, any court or governmental or regulatory agency or body is required with respect to the Company for the execution, delivery and performance by the Company of this Agreement and the Tax Certificate.

(e) The Company has received an executed counterpart of the Indenture and hereby consents to and approves of the provisions thereof.

(f) The information relating to the Project furnished by the Company in writing to Chapman and Cutler, as Bond Counsel, in connection with the issuance by the Issuer of the Bonds, is, to the best of the Company's knowledge, true and correct.

(g) The Prior Agreement and the Prior Indenture are in full force and effect and have not been amended or supplemented.

(h) To the best knowledge of the Company, no event has occurred and is continuing under the provisions of the Prior Indenture that now constitutes, or with the lapse of time or the giving of notice, or both, would constitute, an event of default under the Prior Indenture.

(i) Upon the initial authentication and delivery of the Bonds, the Company has given or will give timely notice as required by the provisions of the Prior Agreement of the Company's intent to prepay the amounts payable thereunder to provide for the redemption of the Prior Bonds on the Redemption Date.

(j) The aggregate principal amount of Bonds authorized to be issued under the Indenture does not exceed the aggregate principal amount of the Prior Bonds now Outstanding.

(k) The Company does not, as of the date of issuance of the Bonds, reasonably expect any use of moneys derived from the proceeds of the Bonds or any investment or reinvestment thereof or from the sale of the Project which would cause the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code.

(l) All of the proceeds of the Prior Bonds, including the investment earnings thereon, have been disbursed in accordance with the provisions of the Prior Indenture and the Prior Agreement and there are no proceeds of the Prior Bonds, or investment earnings therefrom, or any other moneys being held by the Prior Trustee under the Prior Indenture.

(m) The Pollution Control Facilities that comprise the Project constitute Exempt Facilities and consist of those facilities described in Exhibit A hereto (as such Exhibit A is from time to time amended or supplemented in accordance with Section 3.04 hereof), and the Company shall not consent to any changes in the Project which would adversely affect the qualification of the Project as a "project" under the Act or adversely affect the Tax-Exempt status of the Bonds.

(n) Substantially all of the proceeds of the Prior Bonds have been expended for the purpose of acquiring, constructing and improving the Project, which constitutes Exempt Facilities. None of the proceeds of the Prior Bonds were used (i) to acquire land (or an interest therein) or (ii) to acquire any property (or an interest therein) unless the first use of such property was pursuant to such acquisition, all within the meaning of Section 147 of the Code.

(o) The Montana Department of Health and Environmental Sciences has certified that the pollution control facilities constituting part of the Project, as designed, are in furtherance of the purpose of abating or controlling atmospheric pollutants or contaminants, and water pollution, as the case may be.

(p) No construction, reconstruction or acquisition (within the meaning of the Code) of the Project was commenced prior to the taking of official action by the Issuer with respect thereto and the Project has been placed in service.

(q) The average maturity of the Bonds does not exceed 120% of the average reasonably expected economic life of the Project.

(r) All of the Prior Bonds will be redeemed within 90 days of the date of the initial authentication and delivery of the Bonds, and all of the proceeds of the sale of the Bonds will be spent within 90 days of the initial authentication and delivery of the Bonds.

(s) The Project (i) was designed to meet applicable federal, state and local requirements for the control of pollution or the disposal of solid waste, (ii) was and is to be used solely for purposes contemplated by the Act, and (iii) is located within the boundaries of Rosebud County, Montana.

(t) The representations, warranties and covenants of the Company set forth in the Project Certificate are incorporated herein by reference and are hereby made a part of this Agreement as if set forth herein.

(u) The Company will cooperate with the Issuer in filing or causing to be filed with the United States Department of Treasury the information required by Section 149(e) of the Code.

(v) The Company will pay the principal of and premium, if any, and interest to the Redemption Date on all Prior Bonds that are validly presented to the Company for payment after the Prior Trustee has paid to the Company, in accordance with Section 4.08 of the Prior Indenture, any moneys held in trust for the payment of the principal of and premium, if any, and interest on the Prior Bonds.

Concurrently with the initial authentication and delivery of the Bonds under the Indenture, the Company shall execute and deliver a certificate reaffirming the foregoing representations, warranties and agreements as of the date thereof.

ARTICLE III

ISSUANCE OF THE BONDS; THE LOAN; DISPOSITION OF PROCEEDS OF THE BONDS; THE PROJECT

SECTION 3.01. ISSUANCE OF BONDS. In order to refinance a portion of the cost of the Project by effecting the Refunding, the Issuer shall issue the Bonds under and in accordance with the Act and pursuant to the Indenture. The Company hereby approves the issuance of the Bonds and all terms and conditions thereof.

SECTION 3.02. ISSUANCE OF OTHER OBLIGATIONS. The Issuer and the Company expressly reserve the right to enter into, to the extent permitted by law, an agreement or agreements other than this Agreement with respect to the issuance by the Issuer, under an indenture or indentures other than the Indenture, of obligations to provide additional funds to pay costs of facilities in addition to the Project or to provide for the refunding of all or any principal amount of the Bonds. Such obligations will not be entitled to the benefits of the Indenture or the Credit Facility.

SECTION 3.03. THE LOAN; DISPOSITION OF BOND PROCEEDS AND CERTAIN OTHER MONEYS. The Issuer shall lend to the Company the proceeds of the issuance and sale of the Bonds for the purposes specified in Section 3.01 of this Agreement. The Issuer and the Company shall, simultaneously with the delivery of the Bonds, cause such proceeds, other than accrued interest, if any, to be transferred to the Prior Trustee for deposit into the Prior Bond Fund to be used to pay the principal amount of the Prior Bonds upon their redemption on the Redemption Date.

SECTION 3.04. CHANGES TO PROJECT. The Company may at its own expense cause the Project to be remodeled or cause such substitutions, modifications and improvements to be made to the Project from time to time as the Company, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications and improvements shall be included under the terms of this Agreement as part of the Project; provided, however, that no such remodeling, substitutions, modifications or improvements shall change the description of the Project set forth in Exhibit A to this Agreement or change the function of any principal

component of the Project described in Exhibit A to this Agreement unless, in either case, the Trustee and the Issuer first receive a Favorable Opinion of Bond Counsel with respect to such change. If any such supplement or amendment affects the description of the Project, the Company and the Issuer will amend Exhibit A to this Agreement to reflect such supplement or amendment, which supplement or amendment will not be considered as an amendment to this Agreement requiring the consent of any Owner, the Trustee or the Provider for the purposes of Article XII of the Indenture.

ARTICLE IV

LOAN PAYMENTS; PAYMENTS TO REMARKETING AGENT AND TRUSTEE; OTHER OBLIGATIONS

SECTION 4.01. LOAN PAYMENTS. (a) As and for repayment of the loan made to the Company by the Issuer pursuant to Section 3.03 hereof, the Company shall pay to the Trustee, for the account of the Issuer, an amount equal to the aggregate principal amount of and the premium, if any, on the Bonds from time to time Outstanding and, as interest on its obligation to pay such amount, an amount equal to interest on the Bonds, such amounts to be paid in installments due on the dates, in the amounts and in the manner provided in the Indenture for the payment of the principal of and premium, if any, and interest on the Bonds, whether at maturity, upon redemption, acceleration or otherwise; provided, however, that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any moneys held by the Trustee under the Indenture and available for such payment.

(b) In the event the Company shall fail to make any payment required by Section 4.01(a) hereof with respect to the principal of and premium, if any, and interest on any Bond, the payment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company will pay interest on any overdue amount with respect to principal of such Bond and, to the extent permitted by law, on any overdue amount with respect to premium, if any, and interest on such Bond, at the interest rate then borne by such Bond until paid.

SECTION 4.02. PAYMENTS OF PURCHASE PRICE. The Company shall pay or cause to be paid for its account to the Trustee amounts equal to the amounts to be paid by the Trustee as the purchase price for such Bonds pursuant to Section 3.01 and Section 3.02 of the Indenture in respect of Outstanding Bonds, such amounts to be paid to the Trustee on the dates such payments are to be made pursuant to Section 3.01 and Section 3.02 of the Indenture; provided, however, that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any moneys held by the Trustee under the Indenture and available for such payment.

SECTION 4.03. PAYMENTS ASSIGNED; OBLIGATION ABSOLUTE. It is understood and agreed that the Loan Payments are pledged and assigned by the Issuer to the Trustee pursuant to the Indenture, and that all right, title and interest of the Issuer hereunder (except for amounts payable to, and the rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 hereof and the Issuer's rights to receive notices,

certificates, requests, requisitions, directions and other communications hereunder) are pledged and assigned to the Trustee pursuant to the Indenture. The Company assents to such pledge and assignment and agrees that the obligation of the Company to make the Loan Payments and payments to the Trustee under Section 4.02 hereof shall be absolute, irrevocable and unconditional and shall not be subject to cancellation, termination or abatement, or to any defense other than payment, or to any right of setoff, counterclaim or recoupment arising out of any breach under this Agreement or the Indenture or otherwise by the Company, the Trustee, the Remarketing Agent, the Provider, the Auction Agent, the Broker-Dealer or any other party, and, further, that the Loan Payments and the other payments due hereunder shall continue to be payable at the times and in the amounts herein and therein specified whether or not the Project, or any portion thereof, shall have been destroyed by fire or other casualty, or title thereto, or the use thereof, shall have been taken by the exercise of the power of eminent domain, and that there shall be no abatement of or diminution in any such payments by reason thereof, whether or not the Project shall be used or useful and whether or not any applicable laws, regulations or standards shall prevent or prohibit the use of the Project or for any other reason. The Project shall not constitute any part of the Trust Estate or any part of the security for the Bonds.

SECTION 4.04. PAYMENT OF EXPENSES. The Company shall pay all of the Administration Expenses of the Issuer, the Trustee, the Paying Agent, the Registrar, the Auction Agent, the Broker Dealers, the Securities Depository, Moody's and S&P under the Indenture and of any Remarketing Agent under a Remarketing Agreement directly to each such entity. The Company shall also pay all of the expenses of the Prior Trustee in connection with the Refunding and all other reasonable fees and expenses incurred in connection with the issuance of the Bonds, including, but not limited to, all costs associated with any discontinuance of the book-entry system described in Section 2.16 of the Indenture. The obligations of the Company under this Section 4.04 shall survive the termination of this Agreement.

SECTION 4.05. INDEMNIFICATION. The Company releases the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees from, agrees that the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees shall not be liable for, and agrees to indemnify and hold free and harmless the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees from and against, any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project, except in any case as a result of the negligence or willful misconduct of the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees.

The Company will indemnify and hold free and harmless the Trustee, the Paying Agent and the Registrar and their respective officers, agents, servants and employees from and against any loss, claim, damage, tax, penalty, liability, disbursement, litigation or other expenses, attorneys' fees and expenses or court costs arising out of, or in any way relating to, the execution or performance of this Agreement, the Tax Certificate, the Auction Agreement, the issuance or sale of the Bonds, the Refunding, the acceptance or administration of the trust under the Indenture or any other cause whatsoever pertaining to this Agreement, the Tax Certificate, the Indenture, the Auction Agreement or the Credit Facility, except in any case as a result of the

negligence or willful misconduct of the Trustee, the Paying Agent and the Registrar or their respective officers, agents, servants and employees.

The obligations of the Company under this Section 4.05 shall survive the termination of this Agreement.

SECTION 4.06. PAYMENT OF TAXES AND CHARGES IN LIEU THEREOF. (a) The Company covenants and agrees that it will, from time to time for so long as the Company has an ownership interest in the Project, promptly pay and discharge or cause to be paid and discharged when due its share of all taxes, assessments, levies, duties, imposts and governmental, utility and other charges lawfully imposed upon the Project or any part thereof or upon income and profits thereof or any payments hereunder. In the event that the Company sells or otherwise transfers its interest in the Project while the Bonds are Outstanding, the Company shall require the purchasers or transferor of the Company's interest in the Project to assume the Company's obligations under this Section 4.06(a).

(b) The Company shall pay or cause to be satisfied and discharged or make adequate provision to satisfy and discharge (including the provisions of adequate bonding therefor) within 60 days after the same shall accrue, any lien or charge upon the Loan Payments or payments under Section 4.02 hereof, and all lawful claims or demands for labor, materials, supplies or other charges which, if unpaid, might be or become a lien thereon.

(c) Notwithstanding subsections (a) and (b) of this Section, the Company may, at its expense and in its own name and behalf or in the name and behalf of the Issuer, in good faith contest any such liens, taxes, assessments and other charges and, in the event of any such contest, may permit such liens, taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided further that during such period enforcement of such contested item is effectively stayed, unless by nonpayment of any such items the lien of the Indenture as to the amounts payable hereunder will be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items. The Issuer will cooperate fully with the Company in any such contest. In the event that the Company shall fail to pay any of the foregoing items required by this Section to be paid by the Company, the Issuer may (but shall be under no obligation to) pay the same, and any amounts so advanced therefor by the Issuer shall become an additional obligation of the Company to the Issuer. The Company agrees to repay the amounts so advanced, from the date thereof, together (to the extent permitted by law) with interest thereon until paid at a rate per annum which is one percentage point greater than the highest rate per annum then borne by any of the Bonds.

SECTION 4.07. CREDIT FACILITY. (a) The Company may at any time provide for a Change of Credit Facility, provided that the Company delivers to the Trustee, any Auction Agent and any Remarketing Agent, not less than five Business Days prior to the date on which the Trustee must notify the Owners of a Change of Credit Facility pursuant to Section 2.18 of the Indenture and prior to the effective date of any such Change of Credit Facility, the following:

(1) a notice which (A) states the effective date of the Change of Credit Facility, (B) describes the terms of the Change of Credit Facility, and (C) directs the Trustee to give notice pursuant to Section 2.18(a) of the Indenture;

(2) a Favorable Opinion of Bond Counsel with respect to such Change of Credit Facility and stating, in effect, that such change of Credit Facility is authorized under this Agreement;

(3) a certificate of an Authorized Company Representative as to whether the Bonds are then rated by either Moody's or S&P, or both; and

(4) written evidence from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Change of Credit Facility and that such Change of Credit Facility will not, by itself, result in a reduction, suspension or withdrawal of its rating or ratings of the Bonds.

(b) In lieu of satisfying the requirements of subsection (a) above, the Company may provide for a Change of Credit Facility at any time that the Bonds are subject to optional redemption pursuant to Section 4.02(b) of the Indenture, provided that the Company delivers to the Trustee, any Auction Agent and any Remarketing Agent not less than 30 days before the effective date of the Change of Credit Facility:

(1) a notice which (A) states the effective date of the Change of Credit Facility, (B) describes the terms of the Change of Credit Facility, (C) directs the Trustee to give notice pursuant to Section 2.18 of the Indenture that the Bonds are subject to mandatory purchase, in whole, on or before the effective date of the Change of Credit Facility in accordance with Section 3.02(b) of the Indenture, and (D) directs the Trustee to take any other action as shall be necessary for the Trustee to take to effect the Change of the Credit Facility; and

(2) on or before the effective date of the Change of Credit Facility, the Company shall furnish to the Trustee an opinion of Bond Counsel satisfying the requirements of Section 4.07(a)(2) above.

(c) The Company may provide for one or more extensions of a Credit Facility for any period commencing after its then-current expiration date without complying with the foregoing provisions of this Section.

(d) The Company may rescind its election to make a Change of Credit Facility at any time prior to the effective date thereof.

SECTION 4.08. COMPLIANCE WITH PRIOR AGREEMENT. The Company hereby confirms its obligations under the Prior Agreement to furnish any moneys required to be deposited with the Prior Trustee under the Prior Indenture in order to redeem the Prior Bonds on the Redemption Date, to the extent that the proceeds of the Bonds on deposit in the Prior Bond Fund, together

with any investment earnings thereon, is less than the amount required to pay the principal of and applicable redemption premium and interest on the Prior Bonds upon their redemption on the Redemption Date, in accordance with the terms and conditions of the Prior Indenture.

ARTICLE V

SPECIAL COVENANTS

SECTION 5.01. MAINTENANCE OF EXISTENCE; CONDITIONS UNDER WHICH EXCEPTIONS PERMITTED. The Company shall maintain in good standing its corporate existence as a corporation organized under the laws of one of the states of the United States or the District of Columbia and will remain duly qualified to do business in the State for so long as the Company has an ownership interest in the Project, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation; provided, however, that the Company may, without violating the foregoing, undertake from time to time any one or more of the following, if, prior to the effective date thereof, such action is approved by all public utility commissions or similar entities that are required by law to approve such action and there shall have been delivered to the Trustee a Favorable Opinion of Bond Counsel with respect to the contemplated action:

(a) consolidate or merge with another corporation or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety, provided the resulting, surviving or transferee entity, as the case may be, shall be (i) the Company or (ii) an entity qualified to do business in the State as a foreign corporation or incorporated and existing under the laws of the State which shall have assumed in writing all of the obligations of the Company hereunder and shall deliver to the Trustee an opinion of counsel to the Company that such consolidation or merger complies with the provisions of this Section 5.01; or

(b) convey all or substantially all of its assets to one or more wholly-owned subsidiaries of the Company so long as the Company shall remain in existence and primarily liable on all of its obligations hereunder.

SECTION 5.02. PERMITS OR LICENSES. In the event that it may be necessary for the proper performance of this Agreement on the part of the Company or the Issuer that any application or applications for any permit or license to do or to perform certain things be made to any governmental or other agency by the Company or the Issuer, the Company and the Issuer each shall, upon the request of either, execute such application or applications.

SECTION 5.03. ARBITRAGE COVENANT. The Issuer, to the extent it has any control over proceeds of the Bonds, and the Company covenant and represent to each other and to and for the benefit of the Beneficial Owners that so long as any of the Bonds remain Outstanding, moneys on deposit in any fund in connection with the Bonds, whether such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, will not be used in a manner which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and any lawful regulations promulgated thereunder, as the same exist on this date or may from time to time hereafter be amended, supplemented or revised. The Company also covenants for the benefit of the Beneficial Owners to comply with all of the provisions of the Tax Certificate. The Company reserves the right, however, to make any investment of such moneys permitted by State law, if, when and to the extent that said Section 148 or regulations promulgated thereunder shall be repealed or relaxed or shall be held void by final judgment of a court of competent jurisdiction, but only upon receipt of a Favorable Opinion of Bond Counsel with respect to such investment.

SECTION 5.04. FINANCING STATEMENTS. The Company shall, to the extent required by law, file and record, refile and re-record, or cause to be filed and recorded, refiled and re-recorded, all documents or notices, including the financing statements and continuation statements, referred to in Section 5.05 of the Indenture. The Issuer shall cooperate fully with the Company in taking any such action. Concurrently with the execution and delivery of the Bonds, the Company shall cause to be delivered to the Trustee the opinion of counsel required pursuant to Section 5.05(a) of the Indenture.

SECTION 5.05. COVENANTS WITH RESPECT TO TAX-EXEMPT STATUS OF THE BONDS. The Company covenants for the benefit of the Owners of the Bonds and the Issuer that it (a) has not taken, and will not take or permit to be taken on its behalf, any action which would adversely affect the Tax-Exempt status of the Bonds and (b) will take, or require to be taken, such actions as may, from time to time, be required under applicable law or regulation to continue to cause the Bonds to be Tax-Exempt.

SECTION 5.06. INDEMNIFICATION OF ISSUER. (a) The Company agrees that the Issuer, its elected or appointed officials, officers, agents, servants and employees, shall not be liable for, and agrees that it will at all times indemnify and hold free and harmless the Issuer, its elected or appointed officials, officers, agents, servants and employees from and against, and pay all expenses of the Issuer, its elected or appointed officials, officers, agents, servants and employees relating to, (a) any lawsuit, proceeding or claim arising in connection with the Project or this Agreement that results from any action taken by or on behalf of the Issuer, its elected or appointed officials, officers, agents, servants and employees pursuant to or in accordance with this Agreement or the Indenture that may be occasioned by any cause whatsoever, except the negligence or willful misconduct of the Issuer, its elected or appointed officials, officers, agents, servants or employees, or (b) any liability for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Project, except the negligence or willful misconduct of the Issuer, its elected or appointed officials, officers, agents, servants or employees. In case any action shall be brought against the Issuer in respect of which indemnity may be sought against the Company, the Issuer shall promptly notify the Company in writing and the Company shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Issuer and the payment of all expenses.

Failure by the Issuer to notify the Company shall not relieve the Company from any liability which it may have to the Issuer otherwise than under this Section 5.06. The Issuer shall have the right to employ separate counsel in any such action and participate in the defense thereof, such counsel shall be paid by the Issuer unless the employment of such counsel has been authorized by the Company. The Company shall not be liable for any settlement of any such action without its consent, but if any such action is settled with the consent of the Company or if there be final judgment for the plaintiff in any such action, the Company agrees to indemnify and hold free and harmless the Issuer, its elected or appointed officials, officers, agents, servants and employees from and against any loss or liability by reason of such settlement or judgment. The Company will reimburse the Issuer, its elected or appointed officials, officers, agents, servants and employees for any action taken pursuant to Section 5.03 of the Indenture.

(b) The obligations of the Company under this Section 5.06 shall survive the termination of this Agreement.

(c) It is the intention of the parties that the Issuer, its elected or appointed officials, officers, agents, servants and employees shall not incur any pecuniary liability by reason of the terms of this Agreement or the Indenture, or the undertakings required of the Issuer hereunder or thereunder or by reason of the issuance of the Bonds, the execution of the Indenture or the performance of any act required of the Issuer by this Agreement or the Indenture or requested of the Issuer by the Company.

SECTION 5.07. RECORDS OF COMPANY; MAINTENANCE AND OPERATION OF THE PROJECT. (a) The Trustee and the Issuer shall be permitted at all reasonable times during the term of this Agreement to examine the books and records of the Company with respect to the Project; provided, however, that information and data contained in the books and records of the Company shall be considered proprietary and shall not be voluntarily disclosed by the Trustee or the Issuer except as required by law.

(b) The Company shall cause the Project to be maintained in good repair and shall cause the Project to be insured in accordance with standard industry practice and shall pay all costs thereof. All proceeds of such insurance shall be for the account of the Company.

(c) The Company shall be entitled to the proceeds of any condemnation award or portion thereof made for damage to or taking of any of the Project or other property of the Company.

(d) Anything in this Agreement to the contrary notwithstanding, the Company shall have the right at any time to cause the operation of the Plant to be terminated if the Company shall have determined or concurred in a determination that the continued operation of the Plant is uneconomical for any reason.

SECTION 5.08. RIGHT OF ACCESS TO THE PROJECT. The Company agrees that the Issuer, the Trustee and their respective duly authorized agents shall have the right, for so long as the Company has an ownership interest in the Project and subject to such limitations, restrictions and requirements as the Company may reasonably prescribe for plant security and safety reasons and

in order to preserve secret processes and formulae, at all reasonable times to enter upon and to examine and inspect the Project; provided, however, nothing contained herein shall entitle the Issuer or the Trustee to any information or inspection involving confidential material of the Company. Information and data contained in the books and records of the Company shall be considered proprietary and shall not be voluntarily disclosed by the Issuer or the Trustee except as required by law. In the event that the Company sells or otherwise transfers its interest in the Project, the Company shall require the purchaser or transferee of the Company's interest in the Project to agree that the Issuer, the Trustee and their respective duly authorized agents shall have the same rights, and be subject to the same limitations, as are provided in this Section with respect to the Project.

SECTION 5.09. REMARKETING AGENT. So long as any of the Bonds are subject to optional or mandatory purchase pursuant to the provisions of the Indenture (except during a Term Interest Rate Period that extends to the maturity of the Bonds), the Company shall cause a Remarketing Agent to be appointed and acting pursuant to a Remarketing Agreement at all such times as shall be necessary in order to provide for the remarketing of the Bonds and the establishment of interest rates to be borne by the Bonds in accordance with the provisions of the Indenture.

SECTION 5.10. CREDIT RATINGS. The Company shall take all reasonable action necessary to enable at least two nationally-recognized statistical rating organizations (as that term is used in the rules and regulations of the Securities and Exchange Commission under the Securities Exchange Act) to provide credit ratings for the PARS Rate Bonds.

SECTION 5.11. PURCHASES OF PARS RATE BONDS. The Company shall not purchase or otherwise acquire PARS Rate Bonds unless the Company redeems or cancels such PARS Rate Bonds on the day of any such purchase.

SECTION 5.12. CREDIT FACILITY. Concurrently with the initial authentication and delivery of the Bonds, the Company shall cause the original Credit Facility to be delivered to the Trustee. Under the Credit Facility, the Provider shall guarantee the payment of the principal of the Bonds upon the stated maturity thereof and upon the mandatory redemption of the Bonds pursuant to Section 4.03 of the Indenture and the payment of the interest on the Bonds as the same accrues and becomes due and payable. The Issuer and the Company agree to be bound by the provisions of the Indenture pertaining to the Credit Facility.

ARTICLE VI

ASSIGNMENT

SECTION 6.01. CONDITIONS. The Company's interest in this Agreement may be assigned in whole or in part by the Company: (a) to another entity, subject, however, to the conditions that such assignment shall not relieve (other than as described in Section 5.01(a)(ii) hereof) the Company from primary liability for its obligations to make the Loan Payments or to make payments to the Trustee under Section 4.02 hereof or for any other of its obligations hereunder, or (b) to an Affiliate in connection with the conveyance of the Plant to such Affiliate, subject,

however, to the conditions that (i) such Affiliate is an entity described in Section 5.01(a)(ii) hereof (in which case the Company shall be relieved of all obligations hereunder); (ii) such conveyance is approved by any public utility commissions or similar entities that are required by law to approve such conveyance; and (iii) the Company shall have delivered to the Trustee (A) an opinion of counsel to the Company that such assignment complies with the provisions of this Section 6.01 and (B) a Favorable Opinion of Bond Counsel with respect to such assignment.

SECTION 6.02. DOCUMENTS FURNISHED TO TRUSTEE. The Company shall, within 30 days after the delivery thereof, furnish to the Issuer and the Trustee a true and complete copy of the agreements or other documents effectuating any assignment pursuant to Section 6.01 hereof. The Trustee's only duties with respect to any such agreement or other document so furnished to it shall be to make the same available for examination by any Owner at the Principal Office of the Trustee upon reasonable notice.

SECTION 6.03. LIMITATION. This Agreement shall not be assigned in whole or in part, except as provided in this Article VI or in Section 4.03 or Section 5.01 hereof.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. EVENTS OF DEFAULT. Each of the following events shall constitute and is referred to in this Agreement as an "Event of Default":

(a) a failure by the Company to make when due any Loan Payment or any payment required under Section 4.01 or Section 4.02 hereof, which failure shall have resulted in an "Event of Default" under Section 9.01(a), Section 9.01(b) or Section 9.01(c) of the Indenture;

(b) a failure by the Company to pay when due any amount required to be paid under this Agreement or to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement (other than a failure described in Section 7.01(a) above), which failure shall continue for a period of 90 days (or such longer period as the Issuer and the Trustee may agree to in writing) after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Company by the Trustee or to the Company and the Trustee by the Issuer; provided, however, that if such failure is other than for the payment of money and is of such nature that it cannot be corrected within the applicable period, such failure shall not constitute an "Event of Default" so long as the Company institutes corrective action within the applicable period and such action is being diligently pursued;

(c) the dissolution or liquidation of the Company; or the filing by the Company of a voluntary petition in bankruptcy; or failure by the Company promptly to lift or bond any execution, garnishment or attachment of such consequence as will impair its ability to make any payments under this Agreement; or the filing of a petition or answer proposing

the entry of an order for relief by a court of competent jurisdiction against the Company under Title 11 of the United States Code, as the same may from time to time be hereafter amended, or proposing the reorganization, arrangement or debt readjustment of the Company under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted and the failure of said petition or answer to be discharged or denied within ninety (90) days after the filing thereof or the entry of an order for relief by a court of competent jurisdiction in any proceeding for its liquidation or reorganization under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted; or an assignment by the Company for the benefit of its creditors; or the entry by the Company into an agreement of composition with its creditors (the term "dissolution or liquidation of the Company," as used in this subsection (c), shall not be construed to include the cessation of the corporate existence of the Company resulting either from a merger or consolidation of the Company into or with another corporation or a dissolution or liquidation of the Company following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions contained in Section 5.01 hereto; or

(d) receipt by the Trustee of written notice from Ambac that an Event of Default has occurred under the initial Credit Facility Agreement or the occurrence of an event described in any subsequent Credit Facility Agreement that is designated therein as giving rise to an Event of Default hereunder.

SECTION 7.02. FORCE MAJEURE. The provisions of Section 7.01(b) hereof are subject to the following limitations: if by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or the State, or any department, agency, political subdivision, court or official of any of such State or any other state which asserts regulatory jurisdiction over the Company; orders of any kind of civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; volcanoes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; partial or entire failure of utilities; or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out any one or more of its agreements or obligations contained herein, other than its obligations under Section 4.01, Section 4.02, Section 4.04, Section 4.05, Section 4.06, Section 5.01 and Section 5.06 hereof, the Company shall not be deemed in default by reason of not carrying out said agreement or agreements or performing said obligation or obligations during the continuance of such inability. The Company shall make reasonable effort to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements, provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 7.03. REMEDIES. (a) Upon the occurrence and continuance of any Event of Default described in Section 7.01(a) or Section 7.01(c) hereof, and further upon the condition that, in accordance with the terms of the Indenture, the Bonds shall have been declared to be immediately due and payable pursuant to any provision of the Indenture, the Loan Payments shall without further action, become and be immediately due and payable.

(b) Any waiver of any "Event of Default" under the Indenture and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Agreement and a rescission and annulment of the consequences thereof.

(c) Upon the occurrence and continuance of any Event of Default, the Issuer may take any action at law or in equity to collect any payments then due and thereafter to become due hereunder or to seek injunctive relief or specific performance of any obligation, agreement or covenant of the Company hereunder.

(d) Any amounts collected from the Company pursuant to this Section 7.03 shall be applied in accordance with the Indenture. No action taken pursuant to this Section 7.03 shall relieve the Company from the Company's obligations pursuant to Section 4.01 or Section 4.02 hereof.

SECTION 7.04. NO REMEDY EXCLUSIVE. No remedy conferred upon or reserved to the Issuer hereby is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this Article VII, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

SECTION 7.05. REIMBURSEMENT OF ATTORNEYS' FEES. If the Company shall default under any of the provisions hereof and the Issuer or the Trustee shall employ attorneys or incur other reasonable and proper expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Company contained herein, the Company will on demand therefor reimburse the Issuer or the Trustee, as the case may be, for the reasonable and proper fees of such attorneys and such other reasonable and proper expenses so incurred.

SECTION 7.06. WAIVER OF BREACH. In the event any obligation created hereby shall be breached by either of the parties hereto and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of certain of the Issuer's rights and interest hereunder to the Trustee, the Issuer shall have no power to waive any Event of Default hereunder by the Company in respect of such rights and interest without the consent of the Trustee, and the Trustee may exercise any of the rights of the Issuer hereunder.

ARTICLE VIII

PURCHASE OR REDEMPTION OF BONDS

SECTION 8.01. REDEMPTION OF BONDS. The Issuer shall take or cause to be taken the actions required by the Indenture (other than the payment of money) to discharge the lien thereof through the redemption, or provision for payment or redemption, of all Bonds then Outstanding, or to effect the redemption, or provision for payment or redemption, of less than all the Bonds then Outstanding, upon receipt by the Issuer and the Trustee from an Authorized Company Representative of a written notice designating the principal amount of the Bonds to be redeemed and specifying the date of redemption (which, unless waived by the Issuer and the Trustee, shall not be less than 30 days from the date such notice is given, or such shorter period as the Trustee and the Company may agree from time to time) and the applicable redemption provision of the Indenture. Unless otherwise stated therein and except with respect to a redemption under Section 4.03 of the Indenture, such notice shall be revocable by the Company at any time prior to the time at which the Bonds to be redeemed, or for the payment or redemption of which provision is to be made, are first deemed to be paid in accordance with Article VIII of the Indenture. The Company shall furnish any moneys required by the Indenture to be deposited with the Trustee or otherwise paid by the Issuer in connection with any of the foregoing purposes. In connection with any redemption of the Bonds, the Company shall provide to the Trustee the names and addresses of the Securities Depositories and Information Services as contemplated by Section 4.05 of the Indenture.

SECTION 8.02. PURCHASE OF BONDS. The Company may at any time, and from time to time, furnish moneys to the Trustee accompanied by a notice directing such moneys to be applied to the purchase of Bonds in accordance with the provisions of the Indenture delivered pursuant to the Indenture, which Bonds shall, at the direction of the Company, be delivered in accordance with Section 3.06(a)(ii) of the Indenture.

SECTION 8.03. OBLIGATION TO PREPAY. (a) The Company shall be obligated to prepay in whole or in part the amounts payable hereunder upon a Determination of Taxability (as defined below) giving rise to a mandatory redemption of the Bonds pursuant to Section 4.03 of the Indenture, by paying an amount equal to, when added to other funds on deposit in the Bond Fund, the aggregate principal amount of the Bonds to be redeemed pursuant to the Indenture plus accrued interest to the redemption date.

(b) The Company shall cause a mandatory redemption to occur within 180 days after a Determination of Taxability (as defined below) shall have occurred. A "Determination of Taxability" shall be deemed to have occurred if, as a result of the failure of the Company to observe any covenant, agreement or representation in this Agreement, a final decree or judgment of any federal court or a final action of the Internal Revenue Service determines that interest paid or payable on any Bond is or was includible in the gross income of an Owner of the Bonds for federal income tax purposes under the Code (other than an Owner who is a "substantial user" or "related person" within the meaning of Section 147(a) of the Code). However, no such decree or action will be considered final for this purpose unless the Company has been given written notice of the same, either directly or in the name of any Owner of a Bond, and, if it so desires and

is legally allowed, has been afforded the opportunity to contest the same, either directly or in the name of any Owner of a Bond, and until conclusion of any appellate review, if sought. If the Trustee receives written notice from any Owner of a Bond stating (a) that the Owner has been notified in writing by the Internal Revenue Service that it proposes to include the interest on any Bond in the gross income of such Owner for the reasons described therein or any other proceeding has been instituted against such Owner which may lead to a final decree or action as described herein, and (b) that such Owner will afford the Company the opportunity to contest the same, either directly or in the name of the Owner, until a conclusion of any appellate review, if sought, then the Trustee shall promptly give notice thereof to the Company, the Issuer, the Provider and the Owner of each Bond then Outstanding. If a final decree or action as described above thereafter occurs and the Trustee has received written notice thereof as provided in Section 8.01 hereof at least 45 days prior to the redemption date, the Trustee shall request prepayment from the Company of the amounts payable hereunder and give notice of the redemption of the Bonds at the earliest practical date, but not later than the date specified in this Article, and in the manner provided by Section 4.05 of the Indenture.

At the time of any such prepayment of the amounts payable hereunder pursuant to this Section, the prepayment amount shall be applied, together with other available moneys in the Bond Fund, to the redemption of the Bonds on the date specified in the notice as provided in the Indenture, whether or not such date is an Interest Payment Date, to the Trustee's fees and expenses under the Indenture accrued to such redemption of the Bonds, and to all sums due to the Issuer under this Agreement.

Whenever the Company shall have given any notice of prepayment of the amounts payable hereunder pursuant to this Article VIII, which includes a notice for redemption of the Bonds pursuant to the Indenture, all amounts payable under the first paragraph of this Section 8.03 shall become due and payable on the date fixed for redemption of such Bonds.

SECTION 8.04. COMPLIANCE WITH INDENTURE. Anything in this Agreement to the contrary notwithstanding, the Issuer and the Company shall take all actions required by this Agreement and the Indenture in order to comply with the provisions of Articles III and IV of the Indenture.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. TERM OF AGREEMENT. This Agreement shall remain in full force and effect from the date of delivery hereof until the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article VIII of the Indenture and until all payments required under this Agreement shall have been made. The date first above written shall be for identification purposes only and shall not be construed to imply that this Agreement was executed on such date.

SECTION 9.02. NOTICES. Except as otherwise provided in this Agreement, all notices, certificates, requests, requisitions and other communications hereunder shall be in writing and

shall be sufficiently given and shall be deemed given when mailed by Mail or by certified or registered mail postage prepaid, or by overnight delivery service, addressed as follows (and, if by overnight delivery service and required by the chosen delivery service, with then-current telephone number of the addressee): if to the Issuer, at City Hall, Forsyth, Montana 59327, Attention: Mayor; if to the Company, at 1411 East Mission Avenue, Spokane, Washington 99220, Attention: Treasurer; if to the Trustee, at such address as shall be designated by it in or pursuant to the Indenture; if to the Auction Agent, if any, at such address as shall be designated by such party pursuant to the Auction Agreement; if to the Provider of the Credit Facility, at such address as shall be designated by it in or pursuant to the Indenture; and if to the Remarketing Agent, if any, at such address as shall be designated by such party pursuant to the Remarketing Agreement. A copy of each notice, certificate, request or other communication given hereunder to the Issuer, the Company, the Trustee, the Auction Agent, the Provider and the Remarketing Agent shall also be given to the others. Any of the foregoing parties may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

SECTION 9.03. PARTIES IN INTEREST. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, and no other person, firm or corporation shall have any right, remedy or claim under or by reason of this Agreement except for rights of payment and indemnification hereunder of the Trustee and the Registrar. Section 9.05 hereof to the contrary notwithstanding, for purposes of perfecting a security interest in this Agreement by the Trustee, only the counterpart delivered, pledged and assigned to the Trustee shall be deemed the original. No security interest in this Agreement may be created by the transfer of any counterpart thereof other than the original counterpart delivered, pledged and assigned to the Trustee.

SECTION 9.04. AMENDMENTS. This Agreement may be amended only by written agreement of the Company and the Issuer and with the written consent of the Trustee in accordance with the provisions of Section 12.05 or 12.06 of the Indenture, as applicable; provided, however, that Exhibit A to this Agreement may be amended upon compliance only with the requirements of Section 3.04 hereof.

SECTION 9.05. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original (except as expressly provided in Section 9.03 hereof), and such counterparts shall together constitute but one and the same Agreement.

SECTION 9.06. SEVERABILITY. If any clause, provision or Section of this Agreement shall, for any reason, be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 9.07. GOVERNING LAW. This Agreement shall be governed exclusively by and construed in accordance with the laws of the State.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

CITY OF FORSYTH, MONTANA

By:

Mayor

[SEAL]

ATTEST:

By:

City Clerk

AVISTA CORPORATION

By:

Vice President & Treasurer

EXHIBIT A

PROJECT DESCRIPTION

1. POLLUTION CONTROL EQUIPMENT

SCRUBBER SYSTEM

The air pollution control facilities employed on Units #3 and #4 consist of a complete scrubber system, including duct work, plenums, scrubber vessels, reheaters and induced draft fans, together with infrastructures, monitoring and electrical controls and instrumentation therefore, for the purpose of removing the sulfur dioxide (SO2) and particulate matter from the flue gas. The scrubber system also includes a scrubber maintenance facility, including a machine shop and laboratory dedicated to the scrubber system and an environmental monitoring laboratory for the pollution control facilities. The scrubber system utilizes the Wet Venturi Principle and consists of eight modules for each unit through which the steam generator gases from the burned coal must pass.

The gases in the scrubber are contacted with finely atomized scrubber slurry. Within the stated performance of the system, fly ash particulates are removed by the slurry droplets. The sulfur dioxide reacts with the alkali contained in the slurry which results from the mixing of water, fly ash particulates, hydrated high calcium lime and hydrated dolomitic lime. A major portion of the sulfur dioxide is converted to solid sulfate compounds which are retained in the scrubber liquid and can, therefore, be piped to and deposited in an ash pond together with the particulate.

After the flue gas passes through the venturi section, absorption sprays and wash trays, it is processed through a demister which removes any entrained slurry and is then reheated and discharged through the stack.

The slurry system in the Units #3 and #4 scrubber system consists of recycle tanks, regenerators, agitators, pumps and pipelines. The slurry from the Units #3 and #4 scrubber system is transported to an effluent holding pond and involves the use of effluent holding tanks, agitators, pumps and pipelines. A separate wash tray pond system is used to store the suspended solids collected from the wash tray system. Reclaimed water from the clear water section of these ponds is circulated back to the scrubber system.

LIME STORAGE

The sole purpose of the lime system is to supply the lie slurry requirements of the scrubber regeneration system. There is one lime system that serves the sixteen scrubbers for Units #3 and #4. Major components of the system include four slakers, in which calcined high calcium lime is reacted with water to produce a hydrated lime slurry, slurry transfer tanks, where

the slurry is diluted with water and mixed with dry hydrated dolomitic lime, slurry feed storage tanks, where the slurry will be held for use by the regenerators as needed, hydrators, for mixing calcined dolomitic lime with water, and agitators.

SCRUBBER SLUDGE DISPOSAL

Effluent slurry is pumped from the plant to the sludge disposal pond located approximately three miles southeast of the plant. The suspended solids settle to the pond bottom and the clear water is pumped back to the plant.

There are two phases in the development of this pond. The first phase requires the construction of one dam 108 feet high and 1,100 feet in length. A saddle dam must also be added. The saddle dam will vary in height with a maximum height for this phase of 36 feet and be approximately 2,800 feet in length. The capacity of Phase 1 will be 6,650 acre-feet and it will last approximately 10 years.

The development of the second phase will require that the original dam be raised to 138 feet in height and increased to a length of 2,500 feet. The saddle dam will be raised to a maximum height of 66 feet and a total length of 3,500 feet. The capacity of the second phase will be an additional 7,000 acre-feet and it will last approximately 12 years, for a total life of 22 years. The construction of the second phase is not included in cost reported at this time.

The sludge disposal pond design takes into account a permit requirement for minimum seepage, by providing low permeability plastic concrete filled trenches around the periphery of the pond constructed during the course of Phase 1 work.

COAL DUST CONTROL SYSTEM

The coal dust control system is designed to collect, store and treat coal dust resulting from mining, crushing, handling and storing coal in the course of normal Units #3 and #4 operations. To control coal dust air pollution the points where coal is transferred between conveyors or placed in coal piles have been enclosed. The coal transfer stations between conveyors are enclosed with steel framed structures with metal siding. The structures are equipped with vacuum filtration systems, consisting of ducts, blowers, dust removal filters and associated equipment, to remove coal dust from exhaust air from the structures, and are also equipped with mechanical dust collectors. The main line 45,000 ton coal storage pile is enclosed with a 340' long A-frame precast panel concrete structure designed to contain coal dust, thereby allowing its removal and treatment.

COOLING TOWER DRIFT CONTAINMENT CONTROL FACILITY

Operation of the cooling towers produces exhaust air emissions containing circulating water, particulates and other pollutants generally known as cooling tower drift. To control release of these air pollutants, the cooling towers are provided with high efficiency drift eliminators, located at the top of the cooling tower structures, which remove drift from the cooling tower exhaust air.

2. SOLID WASTE DISPOSAL

BOTTOM ASH DISPOSAL

The function of the bottom ash disposal system is to remove accumulations of furnace bottom ash, pulverizer pyrites, economizer ash, and air preheater fly ash by means of a water-ash slurry to a disposal pond located approximately 2,000 feet southeast of the plant site. The system consists generally of three sets of fly ash hoppers, (economizer, air heater, and flue gas duct hoppers) pyrite hoppers, the bottom ash hopper, and 18,000 gallon transfer tank, a settling pond, a clear water pond and various pumps, and pipelines.

Clinker grinders are used to grind the bottom ash which is then mixed with water and sluiced to the ash transfer tank.

The economizer ash collected in economizer hoppers falls by gravity to the ash transfer tank.

The pyrites are collected in local tanks and sluiced to the ash transfer tank.

Ash collected in the flue gas duct hoppers and air preheater hoppers is sluiced to the ash transfer tank.

These ashes are pumped from the ash transfer tank to the bottom ash pond. Reclaimed water is returned from the bottom ash disposal pond and redistributed to the various sections of the bottom ash disposal system.

The solid waste disposal facilities for purposes of the issuance of the Bonds include only so much of the bottom ash disposal system as is external to the plant building and include piping from the building to the settling pond, the pond itself, return water pumps and lines, a clear water pond and piping back to the plant building.

3. WATER POLLUTION CONTROL

NORTH PLANT SEDIMENT POND

The north plant sediment pond is designed to collect and store the storm runoff from the general north plant area. These waters are retained in the pond, allowing natural evaporation to desiccate the pond. This prevents high quantities of suspended solids from being discharged to Armells Creek or other state surface waters.

NORTH PLANT AREA DRAINAGE SYSTEM

The north plant area drainage system is designed to collect and store storm runoff from the water treatment building, fuel oil handling area and the cooling tower area in the north plant area drain pond. The pond also serves as a storage facility for one cooling tower basin drain,

cooling tower overflow, water treatment filter backwash, and for the cooling tower blowdown water not used in the flue gas scrubbing process. These waters are potentially contaminated with oil and high suspended and dissolved solids, and this system stores these discharges preventing any discharge to Armells Creek or other state surface waters. The north plant area drainage system consists of collection basins, piping, concrete culverts, yard drains, manholes and special yard gradings (berms) which route these discharges to the north plant area sump and north plant area drain pond. The north plant area drain pond incorporates a hypalon liner to comply with a permit requirement for minimum seepage. The oil separator section of the sump receives oily surface collection drains. The oil and water are separated. The oil from the sump is then trucked away for disposal.

The water discharges are either pumped to the scrubber effluent holding pond via a 6" diameter pipeline, 19,000 feet in length for evaporation, to the circulating water system, or the plant oily waste sump as appropriate. Each discharge arrangement has its own set of sump pumps. The pumps and piping system which discharge to the plant oily waste sump are not included in the costs covered by this Report, nor is the circulating water system. The waters recovered are excess to any plant requirements and recovery of the waters does not provide any economic benefit to the plant.

CHEMICAL AND OILY WASTE SYSTEM

The chemical and oily waste system is designed to collect, store, treat and dispose of chemical and oily wastes resulting from the normal operation of Units #3 and #4. This system consists of drains and pipes, oil separators, chemical waste sumps, chemical waste neutralizing tanks, neutralizing chemical storage tanks, chemical inspection equipment, and associated mechanical and electrical control equipment.

The chemical waste drainage system includes drains and neutralization tanks for collection and treatment of chemical waste Chemical waste drains are located throughout Units #3 and #4, and are used to collect and transfer chemical waste to holding sumps and neutralization tanks. The neutralization equipment includes chemical storage and injection equipment as well as controls and instrumentation.

The oily waste drainage system is made up of a network of drains which collect oily waste from throughout Units #3 and #4, and dispose of the wastes in the Units #3 and #4 main water-oil sump. Oil separation chambers in the sump allow for oil removal. The treated water is monitored for trace oil levels and released. After separation, the waste oil is removed by a contractor to an offsite disposal area.

COOLING TOWER BLOWDOWN SYSTEM

The cooling tower blowdown system consists of a 6" pipeline from the cooling tower to the waste disposal pond where the blowdown is treated by settlement and evaporation in accordance with water pollution control requirements.

GROUNDWATER MONITORING WELLS

Groundwater monitoring wells have been installed around the various ponds associated with the plant operation. These ponds include the scrubber effluent holding pond, the scrubber drain pond, the scrubber wash tray pond, the bottom ash pond, and the north plant area effluent pond. These groundwater monitoring wells provide the ability through sampling to detect and quantify accidental discharges from the above mentioned plant storage and waste ponds. This is necessary to show compliance with State Groundwater Standards and with permit requirements for minimum seepage.

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TRUST INDENTURE

BETWEEN

CITY OF FORSYTH, MONTANA

AND

CHASE MANHATTAN BANK AND TRUST COMPANY,
NATIONAL ASSOCIATION,

AS TRUSTEE

$17,000,000
CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999B

DATED AS OF SEPTEMBER 1, 1999

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TRUST INDENTURE

THIS TRUST INDENTURE is made and entered into as of September 1, 1999, between the CITY OF FORSYTH, MONTANA, a political subdivision duly organized and existing under the Constitution and laws of the State and CHASE MANHATTAN BANK AND TRUST COMPANY, NATIONAL ASSOCIATION, as trustee.

RECITALS

A. In furtherance of its public purposes, the Issuer has entered into a Loan Agreement, dated as of September 1, 1999, with Avista Corporation, a Washington corporation, providing for the issuance by the Issuer of the Bonds for the purpose of refunding, in advance of stated maturity, the Prior Bonds.

B. The execution and delivery of this Indenture and the issuance and sale of the Bonds have been in all respects duly and validly authorized by proper action duly adopted by the governing authority of the Issuer.

C. The execution and delivery of the Bonds and of this Indenture have been duly authorized and all things necessary to make the Bonds, when executed by the Issuer and authenticated by the Trustee, valid and binding legal obligations of the Issuer and to make this Indenture a valid and binding agreement have been done.

NOW, THEREFORE, THIS TRUST INDENTURE WITNESSETH:

GRANTING CLAUSES

The Issuer, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Bonds by the Owners thereof, and for other good and valuable consideration, the receipt of which is hereby acknowledged, in order to secure the payment of the principal of, and premium, if any, and interest on, the Bonds according to their tenor and effect and to secure the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Bonds, does hereby grant, bargain, sell convey, mortgage and warrant, and assign, pledge and grant a security interest in, the Trust Estate to the Trustee, and its successors in trust and assigns forever for the benefit of the Owners:

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, to the Trustee and its respective successors in trust and assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future Owners of the Bonds issued under and secured by this Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Bonds over any of the other Bonds;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, and premium, if any, and interest on, the Bonds due or to become due thereon, at the times and in the manner mentioned in the Bonds and as provided in Article VIII hereof according to the true intent and meaning thereof, and shall cause the payments to be made as required under Article V hereof, or shall provide, as permitted hereby, for the payment thereof in accordance with Article VIII hereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay, or cause to be paid, the principal of, and premium, if any, and interest on, the Bonds due or to become due in accordance with the terms and provisions hereof, then and in that case this Indenture and the rights hereby granted shall cease, terminate and be void and the Trustee shall thereupon cancel and discharge this Indenture and execute and deliver to the Issuer and the Company such instruments in writing as shall be requisite to evidence the discharge hereof, otherwise this Indenture shall be and remain in full force and effect.

THIS TRUST INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all of the Trust Estate is to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners, from time to time, of the Bonds, or any part thereof, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.01. GENERAL DEFINITIONS. The terms defined in this Section 1.01 shall have the meanings provided herein for all purposes of this Indenture and the Agreement, unless the context clearly requires otherwise. Additional definitions relating to the PARS Rate are contained in Section 1.02. The two sets of definitions contained in Sections 1.01 and 1.02 are set forth separately for convenience of reference only.

"Act" means Sections 90-5-101 to 90-5-114, inclusive, Montana Code Annotated, as from time to time supplemented and amended.

"Administration Expenses" means reasonable compensation and reimbursement of reasonable expenses and advances payable to the Issuer, the Trustee, the Registrar, the Remarketing Agent, the Paying Agent, Moody's and S&P.

"Agreement" or "Loan Agreement" means the Loan Agreement, dated as of September 1, 1999, between the Issuer and the Company, as amended and supplemented from time to time.

"Ambac" shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

"Authorized Company Representative" means each person at the time designated to act on behalf of the Company by written certificate furnished to the Issuer and the Trustee containing the specimen signature of such person and signed on behalf of the Company by its President, any Vice President, its Secretary, any Assistant Secretary, its Treasurer or any Assistant Treasurer. Such certificate may designate an alternate or alternates.

"Authorized Denomination" means (i) $25,000 or any integral multiple of $25,000 when the Bonds bear interest as a PARS Rate; (ii) $100,000 or any integral multiple of $100,000 when the Bonds bear interest at a Daily Interest Rate or Weekly Interest Rate; (iii) $100,000 or any integral multiple of $5,000 in excess of $100,000 when the Bonds bear interest at a Flexible Interest Rate; and (iv) $5,000 or any integral multiple of $5,000 when the Bonds bear interest at a Term Interest Rate.

"Beneficial Owner" has, when the Bonds are held in book-entry form, the meaning ascribed to such term in Section 2.16 hereof

"Bond" or "Bonds" means the Issuer's Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999B, issued pursuant to this Indenture.

"Bond Counsel" means Chapman and Cutler or any other firm of nationally recognized bond counsel familiar with the type of transactions contemplated under this Indenture selected by the Company and acceptable to the Trustee.

"Bond Documents" means this Indenture, the Agreement and the Bonds.

"Bond Fund" means the trust fund by that name created pursuant to Section 6.01(a) hereof.

"Bond Payment Date" means any Interest Payment Date and any other date on which the principal of, and premium, if any, and interest on, the Bonds is to be paid to the Owners thereof, whether upon redemption, at maturity or upon acceleration of maturity of the Bonds.

"Bond Purchase Contract" means the Bond Purchase Contract dated September 8, 1999, between the Issuer and Goldman, Sachs & Co., as Underwriter.

"Bond Resolution" means the resolution duly adopted and approved by the City Council of the Issuer on August 23, 1999, authorizing the issuance and sale of the Bonds and the execution of this Indenture and the Agreement.

"Business Day" means any day except a Saturday, Sunday or other day (a) on which commercial banks located in the cities in which the Principal Office of the Trustee, the Principal Office of the Company, the Principal Office of the Remarketing Agent or the Principal Office of the Paying Agent are located are required or authorized by law or regulation to remain closed or are closed, or (b) on which The New York Stock Exchange is closed.

"Change of Credit Facility" means (a) the delivery of a Credit Facility (or evidence thereof) to the Trustee, (b) the termination of an existing Credit Facility or (c) a combination of (a) and (b), in each case in accordance with Section 4.07 of the Agreement.

"Closing" and "Closing Date" means the date of the first authentication and delivery of fully-executed and authenticated Bonds under this Indenture.

"Code" means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"1954 Code" means the Internal Revenue Code of 1954, as amended. Each reference to a section of the 1954 Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"Company" means Avista Corporation, a corporation organized and existing under the laws of the State of Washington and formerly known as The Washington Water Power Company, or its successors and assigns pursuant to Section 5.01 of the Agreement.

"Costs of Issuance" means any items of expense directly or indirectly payable or reimbursable by the Company and directly or indirectly attributable to the authorization, sale and issuance of the Bonds, including, but not limited to, printing costs; costs of preparation and reproduction of documents; initial fees and charges of the Trustee, the Registrar and the Paying Agent; legal fees and charges, if any; underwriting discount or fees paid to Goldman, Sachs & Co. in connection with the initial offering and sale of the Bonds; the Issuer fees and direct out-of-pocket expenses incurred in issuing and paying the Bonds and loaning the proceeds of the Bonds to the Company (but not including any overhead or administrative costs of the Issuer relating to the Bonds); letter of credit fees and municipal bond insurance premiums, if any, (but such fees or premiums shall not be treated as Costs of Issuance to the extent such fees and premiums are for the payment of the reasonable costs of a transfer of credit risk under the Code and do not reflect indirect payment of additional Costs of Issuance); fees and disbursements of financial advisers, consultants and professionals; and costs of credit ratings.

"Credit Facility" means a facility provided in accordance with Section 4.07 of the Agreement to provide security or liquidity for the Bonds. The term "Credit Facility" includes, by way of example and not of limitation, one or more letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit, first mortgage bonds and other security instruments or liquidity devices. A Credit Facility may have an expiration date earlier than the maturity of the Bonds. The initial Credit Facility is the Insurance Policy.

"Credit Facility Agreement" means any agreement between the Company and the Provider and relating to the Credit Facility then in effect. The initial Credit Facility Agreement is that Insurance Agreement dated as of September 1, 1999 between Ambac and the Company.

"Daily Interest Rate" means the interest rate on the Bonds established pursuant to Section 2.04 hereof

"Daily Interest Rate Period" means each period during which a Daily Interest Rate is in effect.

"Delivery Office of the Trustee" means the office designated as such by the Trustee in writing to the Remarketing Agent, the Registrar, the Issuer and the Company.

"Determination of Taxability" shall have the meaning set forth in Section 8.03 of the Agreement. The Trustee shall give notice of a Determination of Taxability as provided in Section 10.05 hereof.

"DTC" means The Depository Trust Company and its successors and assigns.

"DTC Participants" means those brokers, securities dealers, banks, trust companies, clearing corporations and certain other organizations from time to time for which DTC holds Bonds as securities depository.

"DTC Representation Letter" has the meaning assigned thereto in Section 2.16(c) hereof.

"Due for Payment" has the meaning specified in the Credit Facility.

"Event of Default" means any occurrence or event specified in Section 9.01 hereof

"Executive Officer" means the Mayor of the Issuer.

"Exempt Facilities" means facilities which qualify as "sewage or solid waste disposal facilities" or "air or water pollution control facilities" as defined in the 1954 Code and which qualify as a "project" under the Act.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel addressed to the Issuer and the Trustee to the effect that the proposed action is not prohibited by the Act or the Indenture or the Loan Agreement, as applicable, and will not adversely affect the Tax-Exempt status of the Bonds.

"Flexible Interest Rate" means, with respect to any Bond, the interest rate or rates associated with such Bond established in accordance with Section 2.07 hereof.

"Flexible Interest Rate Period" means each period comprised of Flexible Segments during which Flexible Interest Rates are in effect.

"Flexible Segment" means, with respect to each Bond bearing interest at a Flexible Interest Rate, the period established in accordance with Section 2.07(a) hereof.

"Government Obligations" means direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed as to full and timely payment by, the United States of America, which are not subject to redemption or prepayment prior to stated maturity.

"Indenture" means this Trust Indenture between the Issuer and the Trustee relating to issuance of the Bonds, as amended or supplemented from time to time as permitted herein.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's "Municipal and Government," 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; the Municipal Securities Rulemaking Board, CDI Pilot, 1640 King Street, Suite 300, Alexandria, Virginia 22314 and Standard and Poor's "Called Bond Record," 55 Water Street, New York, New York 10041; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or no such services, as the Company may designate in a certificate delivered to the Trustee.

"Initial Period" means the period from and including the Closing Date through and including February 1, 2000.

"Insurance Policy" shall mean the municipal bond insurance policy issued by Ambac insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Insurance Trustee" has the meaning specified in the Insurance Policy. The Insurance Policy specifies that the United States Trust Company of New York is initially the Insurance Trustee.

"Interest Account" means the trust account by that name established in the Bond Fund pursuant to Section 6.01 hereof.

"Interest Coverage Rate" means the interest rate specified in a Credit Facility as being the rate used to determine the amount of interest on the Bonds covered by such Credit Facility.

"Interest Payment Date" means:

(a) with respect to any PARS Rate Period, the Business Day immediately following the Initial Period and (i) when used with respect to any Auction Period other than a daily Auction Period, the Business Day immediately following such Auction Period and (ii) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period,

(b) with respect to any Daily or Weekly Interest Rate Period, the first Business Day of each calendar month,

(c) with respect to any Term Interest Rate Period, the first day of the sixth month following the commencement of the Term Interest Rate Period and the first day of each sixth month thereafter, and the day following the last day of a Term Interest Rate Period,

(d) with respect to any Flexible Segment, the Business Day next succeeding the last day of such Flexible Segment, and

(e) with respect to any Rate Period, the day next succeeding the last day thereof.

"Investment Securities" means any of the following obligations or securities, to the extent permitted by law and subject to the provisions of Article VII hereof, on which neither the Company nor any of its subsidiaries is the obligor.

(a) Government Obligations;

(b) Obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Rural Economic Community Development Administration (formerly the Farmers Home Administration)
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration
- Federal Financing Bank;

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations rated "Aaa" by Moody's and "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other government-sponsored agencies approved by the Provider;

(d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term

certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank.);

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(g) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (g) on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) General obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(i) Investment agreements approved in writing by the Provider supported by appropriate opinions of counsel with notice to S&P; and

(j) Other forms of investments (including repurchase agreements) approved in writing by the Provider with notice to S&P.

"Issue Date" means the date of the initial authentication and delivery of the Bonds, being September 15, 1999.

"Issuer" means the City of Forsyth, Montana, and its successors, and any political subdivision resulting from or surviving any consolidation or merger to which it or its successors may be a party.

"Loan Payments" means the payments required to be made by the Company pursuant to Section 4.01(a) of the Agreement.

"Mail" means by first-class mail postage prepaid.

"Maturity Date" means March 1, 2034.

"Maximum Interest Rate" means (a) while a Credit Facility is in effect that specifies an Interest Coverage Rate, the lesser of 18% per annum or the Interest Coverage Rate specified in the Credit Facility, and (b) at all other times, 18% per annum.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized rating agency designated by the Company by notice to the Issuer, the Trustee and the Remarketing Agent.

"Outstanding" or "Bonds Outstanding" or "Outstanding Bonds" means, as of any given date, all Bonds which have been authenticated and delivered by the Trustee under this Indenture, except:

(a) Bonds canceled or purchased by or delivered to the Trustee for cancellation;

(b) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment, including premium if any, and interest accrued to the due date, of which sufficient moneys are held by the Trustee;

(c) Bonds deemed paid in accordance with Article VIII hereof; and

(d) Bonds in lieu of which others have been authenticated under Section 2.11 (relating to transfer and exchange of Bonds) or Section 2.13 (relating to mutilated, lost, stolen, destroyed or undelivered Bonds) or Bonds paid pursuant to Section 2.13;

provided, however, that if the principal of or interest due on Bonds is paid by the Provider pursuant to the Credit Facility, such Bonds shall remain Outstanding for all purposes of this Indenture until the Provider receives payment therefor as contemplated by the Credit Facility.

Bonds purchased by the Trustee or the Company pursuant to Article III hereof will continue to be Outstanding until the Company has paid or caused to be paid to the Trustee an amount sufficient to provide for the payment of all accrued interest on such Bonds and the Company has directed the Trustee to cancel such Bonds. Bonds purchased pursuant to tenders

and not delivered to the Trustee for payment are not Outstanding, but there will be Outstanding Bonds authenticated and delivered in lieu of such undelivered Bonds as contemplated by Section 3.03 hereof.

"Owner" or "Owners" or "Owner of Bonds" or "Owners of Bonds" means the registered owner of any Bond; provided however, when used in the context of the Tax-Exempt status of the Bonds, the term "Owners" shall include a Beneficial Owner.

"PARS" and other definitions relating to PARS Rate Bonds are set forth in Section 1.02 hereto. Reference is also hereby made to Exhibit B for certain provisions relating to Auction Procedures for the PARS Rate Bonds.

"Paying Agent" means any paying agent appointed as provided in Section 10.23 hereof, or any successor thereto.

"Person" means one or more individuals, estates, joint ventures, joint-stock companies, partnerships, associations, corporations, limited liability companies, trusts or unincorporated organizations, and one or more governments or agencies or political subdivisions thereof.

"Plant" means the Colstrip Plant Units 3 and 4 coal-fired steam electric generating plant, located in Rosebud County, Montana.

"Pollution Control Facilities" means those items of machinery, equipment, structures, improvements, other facilities and related property, which have been or will be acquired, constructed and improved at the Plant and are particularly described in Exhibit A to the Agreement, as said Exhibit A may be from time to time amended.

"Principal Account" means the trust account by that name established within the Bond Fund pursuant to Section 6.01 hereof.

"Principal Office of the Company" means the office of the Company specified in or designated pursuant to Section 3.06(c) hereof.

"Principal Office of the Paying Agent" means the office designated in writing by the Paying Agent to the Trustee, the Issuer, the Company, the Registrar, the Provider and the Remarketing Agent.

"Principal Office of the Registrar" means the office or offices designated as such by the Registrar in writing to the Trustee, the Company, the Issuer, the Provider and the Remarketing Agent.

"Principal Office of the Remarketing Agent" means the office designated in writing by the Remarketing Agent to the Trustee, the Issuer, the Company, the Provider, the Registrar and the Paying Agent.

"Principal Office of the Trustee" means the office designated as such by the Trustee in writing to the Remarketing Agent, the Registrar, the Provider, the Issuer and the Company.

"Prior Agreement" means the Loan Agreement between the Issuer and the Company, dated as of October 1, 1989, pursuant to which the Company is obligated to provide for payment of the Prior Bonds.

"Prior Bond Fund" means the bond fund created under Section 4.01(b) of the Prior Indenture from which payments of principal and interest on the Prior Bonds are made.

"Prior Bonds" means the City of Forsyth, Rosebud County, Montana, Pollution Control Revenue Refunding Bonds (The Washington Water Power Company Colstrip Project) Series 1989B which are being refunded pursuant to the Refunding with the proceeds of the Bonds.

"Prior Indenture" means the Indenture of Trust between the Issuer and the Prior Trustee, dated as of October 1, 1989, pursuant to which the Prior Bonds were issued.

"Prior Trustee" means Chemical Bank (which is now known as The Chase Manhattan Bank), as trustee under the Prior Indenture.

"Project" means the Company's 15% undivided interest in the Pollution Control Facilities.

"Project Certificate" means the Company's certificate or certificates, delivered concurrently with the initial authentication and delivery of the Bonds, with respect to certain facts which are within the knowledge of the Company to enable Bond Counsel to determine whether interest on the Bonds is includible in the gross income of the Owners thereof under applicable provisions of the Code.

"Provider" and "Provider of the Credit Facility" means the provider of the Credit Facility. The initial Provider is Ambac.

"Provider Default" means any of the following events:

(a) the failure of the Provider to make any payment required under the Credit Facility when the same shall become due and payable or the Credit Facility shall for any reason cease to be in full force and effect;

(b) a decree or order for relief shall be entered by a court or insurance regulatory authority having jurisdiction over the Provider in an involuntary case under an applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, custodian, trustee, sequestrator (or similar official) of the Provider or for any substantial part of the property of the Provider or ordering the winding-up or liquidation of the affairs of the Provider, and the continuance of any such decree or order shall be unstayed and remain in effect for a period of 60 consecutive days thereafter; or

(c) the Provider shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the Provider shall consent to or acquiesce in the entry of an order for relief in an involuntary case under any such law, or the Provider shall consent to the appointment of or taking of possession by a receiver, liquidator, trustee, custodian, sequestrator (or similar official) of the Provider or for any substantial part of its property, or the Provider shall make a general assignment for the benefit of creditors, or the Provider shall fail generally or admit in writing its inability to pay its debts as such debts become due, or the Provider shall take corporate action in contemplation or furtherance of any of the foregoing.

"Rate" means any PARS Rate, Daily Interest Rate, Weekly Interest Rate, Flexible Interest Rate or Term Interest Rate.

"Rate Period" means any PARS Rate Period, Daily Interest Rate Period, Weekly Interest Rate Period, Flexible Interest Rate Period or Term Interest Rate Period.

"Rating Category" means one of the generic rating categories of either Moody's or S&P, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Rebate Fund" means the trust fund by that name created pursuant to Section 6.01(b) hereof.

"Record Date" means:

(a) with respect to a PARS Rate Period other than a daily Auction Period, the second Business Day preceding an Interest Payment Date therefor and during a daily Auction Period, the last Business Day of the month preceding an Interest Payment Date therefor,

(b) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or Flexible Segment, the Business Day next preceding such Interest Payment Date,

(c) with respect to any Interest Payment Date in respect of any Term Interest Rate Period (except as provided in clause (d) below), the fifteenth day of the month preceding such Interest Payment Date, and

(d) for any Interest Payment Date established pursuant to clause (e) of the definition of "Interest Payment Date" in this Section 1.01 in respect of a Term Interest Rate Period, the Business Day next preceding such Interest Payment Date.

"Redemption Date" means December 1, 1999, the date upon which the Prior Bonds are to be redeemed.

"Refunding" means the series of transactions whereby the Prior Bonds are refunded and cancelled with the proceeds of the Bonds and other money provided by the Company.

"Registrar" means the Trustee or any successor Registrar appointed in accordance with Section 10.22.

"Remarketing Agent" means any Person serving from time to time as Remarketing Agent under this Indenture.

"Remarketing Agreement" means the remarketing agreement between the Company and the Remarketing Agent pursuant to which the Remarketing Agent agrees to act as Remarketing Agent for the Bonds, as such remarketing agreement may be amended and supplemented from time to time.

"Revenues" means all moneys pledged hereunder and paid or payable to the Trustee for the account of the Issuer in accordance with the Agreement and the Credit Facility, and all receipts credited under the provisions of this Indenture against such payments; provided however, that "Revenues" shall not include moneys held by the Trustee in the Rebate Fund or to pay the purchase price of Bonds subject to purchase pursuant to Article III hereof.

"S&P" means Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Company by notice to the Issuer, the Trustee and the Remarketing Agent.

"Securities Depositories" means The Depository Trust Company, Call Notification Department, 711 Stewart Avenue, Garden City, New York 11530, Telephone: (516) 227-4070, Fax: (516) 227-4190, or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories, or no such depositories, as the Company may designate in a certificate delivered to the Trustee.

"State" means the State of Montana.

"Supplemental Indenture" means any indenture supplemental to this Indenture entered into between the Issuer and the Trustee pursuant to the provisions of Section 12.01 or Section 12.02 hereof.

"Tax Certificate" means the Tax Exemption Certificate and Agreement relating to the Bonds to be executed by the Company, the Issuer and the Trustee on the date of the initial authentication and delivery of the Bonds, as amended and supplemented from time to time.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is not includible in gross income of the owners of such obligations for federal income tax purposes, except for interest on any such

obligations for any period during which such obligations are owned by a person who is a "substantial user" of any facilities financed or refinanced with such obligations or a "related person" within the meaning of Section 147(a) of the Code, whether or not such interest is includible as an item of tax preference or otherwise includible directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Term Interest Rate" means the interest rate on the Bonds established in accordance with Section 2.06 hereof.

"Term Interest Rate Period" means each period of six months or more during which a Term Interest Rate is in effect.

"Treasury Regulations" means the United States Treasury Regulations dealing with the tax-exempt bond provisions of the Code.

"Trustee" means Chase Manhattan Bank and Trust Company, National Association, as trustee under this Indenture, and any successor Trustee appointed hereunder.

"Trust Estate" means all right, title and interest of the Issuer in and to the Agreement (except for amounts payable to, and the rights of, the Issuer under Section 4.04, Section 4.06(a), Section 5.03, Section 5.06, Section 5.07, Section 5.08 and Section 7.05 thereof, and the Issuer's right to receive notices, certificates, requests, requisitions, directions and other communications thereunder), including, without limitation, all right, title and interest of the Issuer in the Revenues, all moneys and other obligations which are, from time to time, deposited or required to be deposited with or held or required to be held by or on behalf of the Trustee in trust in the Bond Fund under any of the provisions of this Indenture (except moneys or obligations deposited with or paid to the Trustee for payment or redemption of Bonds that are deemed no longer Outstanding hereunder), the Credit Facility, and all other rights, title and interest which are subject to the lien of this Indenture; provided, however, that the "Trust Estate" shall not include (a) moneys held by the Trustee in the Rebate Fund or to pay the purchase price of Bonds subject to purchase pursuant to Article III hereof or (b) the Plant, the Pollution Control Facilities, the Project or any part thereof.

"Weekly Interest Rate" means the interest rate on the Bonds established in accordance with Section 2.05 hereof.

"Weekly Interest Rate Period" means each period during which a Weekly Interest Rate is in effect.

SECTION 1.02 PARS RATE DEFINITIONS. The terms defined in this Section 1.02 shall have the meanings provided herein for all purposes of this Indenture and the Agreement, unless the context clearly requires otherwise.

"Agent Member" means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder and is identified as such in the Bidder's Master Purchaser's Letter.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means IBJ Whitehall Bank & Trust Company, New York, New York, or any successor auctioneer appointed in accordance with Section 1.10 or 1.11 of Exhibit B hereto.

"Auction Agreement" means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in Exhibit B hereto, as such agreement may from time to time be amended or supplemented.

"Auction Date" means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, if the PARS Rate Bonds are in a daily Auction Period, each Business Day, and if the PARS Rate Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such PARS Rate Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the PARS Rate Bonds in an Auction Period other than a daily Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the PARS Rate Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the PARS Rate Bonds; and provided, further, that if the PARS Rate Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the PARS Rate Bonds and (y) the Business Day next preceding the final maturity date for the PARS Rate Bonds. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the PARS Rate Bonds is February 1, 2000.

"Auction Period" means:

(i) with respect to the PARS Rate Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day,

(ii) with respect to the PARS Rate Bonds in a seven-day mode, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not a Business Day, in which case ending on the Business Day immediately preceding such Tuesday),

(iii) with respect to the PARS Rate Bonds in a 28 day mode, a period of generally 28 days beginning on a Wednesday (or the last day of the prior Auction Period if the Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not a Business Day, in which case on the Business Day immediately preceding such Tuesday),

(iv) with respect to the PARS Rate Bonds in a 35 day mode, a period of generally 35 days beginning on a Wednesday (or the last day of the prior Auction Period if

the Auction Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not a Business Day, in which case on the Business Day immediately preceding such Tuesday), and

(v) with respect to the PARS Rate Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding March 1 or September 1;

provided, however, that if there is a conversion from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not a Business Day, in which case on the next preceding Business Day), if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period and will end on the Tuesday (unless such Tuesday is not a Business Day, in which case on the next preceding Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and, if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not a Business Day, in which case on the next preceding Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

"Auction Procedures" means the procedures for conducting Auctions for the PARS Rate Bonds during a PARS Rate Period set forth in Exhibit B hereto.

"Auction Rate" means for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the PARS Rate Bonds are the subject of Submitted Hold Orders, the Minimum PARS Rate and (ii) if Sufficient Clearing Bids do not exist, the Maximum PARS Rate.

"Available Bonds" means the aggregate principal amount of the PARS Rate Bonds that are not the subject of Submitted Hold Orders.

"Bid" shall have the meaning specified in subsection (a) of Section 1.02 of Exhibit B hereto.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer in Exhibit B hereto that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Company, with the consent of Goldman, Sachs & Co. as long as Goldman, Sachs & Co. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

"Broker-Dealer Agreement" means an agreement between the Auction Agent and a Broker Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in Exhibit B hereto, as such agreement may from to time be amended or supplemented.

"Existing Owner" means a Person who has signed a Master Purchaser's Letter and is listed as the beneficial owner of the PARS Rate Bonds in the records of the Auction Agent.

"Hold Order" shall have the meaning specified in subsection (a) of Section 1.02 of Exhibit B hereto.

"Master Purchaser's Letter" means a letter substantially in the form attached to the Broker-Dealer Agreement addressed to a Broker-Dealer, among others, in which a Person agrees, among other things, to offer to purchase, to purchase, to offer to sell and/or to sell the PARS Rate Bonds as set forth in Exhibit B hereto.

"Maximum PARS Rate" means, as of any Auction Date, the Maximum Interest Rate.

"Minimum PARS Rate" means, as of any Auction Date, the lesser of the Maximum Interest Rate and a per annum rate equal to 45% of the PARS Index in effect on such Auction Date.

"No Auction Rate" means, as of any Auction Date, the lesser of the Maximum PARS Rate and the rate determined by multiplying the Percentage of PARS Index set forth below, based on the Prevailing Rating of the PARS Rate Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the PARS Index:

PREVAILING RATING OF PARS BONDS	PERCENTAGE OF PARS INDEX
AAA/Aaa	65%
AA/Aa	70%
A/A	85%
Below A/A	100%

"Order" means a Hold Order, Bid or Sell Order.

"PARS" means the PARS Rate Bonds while they bear interest at the PARS Rates.

"PARS Index" shall have the meaning specified in Section 1.07 of Exhibit B hereto.

"PARS Rate" means the rate of interest to be borne by the PARS Rate Bonds during each Auction Period, not greater than the Maximum Interest Rate, determined in accordance with Section 2.03; provided that all PARS shall bear the same PARS Rate.

"PARS Rate Adjustment Date" means the first day of each Auction Period.

"PARS Rate Bonds" means the Bonds during any PARS Rate Period.

"PARS Rate Conversion Date" means the date on which the PARS Rate Bonds convert from an interest rate period other than a PARS Rate Period and begin to bear interest at a PARS Rate.

"PARS Rate Period" means each period during which a PARS Rate is in effect.

"Payment Default" means the failure to make payment of interest on, premium, if any, and principal of the PARS Rate Bonds when due.

"Potential Owner" means any Person, including any Existing Owner, who shall have executed a Master Purchaser's Letter and who may be interested in acquiring a beneficial interest in the PARS Rate Bonds in addition to the PARS Rate Bonds currently owned by such Person, if any,

"Prevailing Rating" means:

(a) AAA/Aaa, if the PARS Rate Bonds shall have a rating of AAA or better by S&P and a rating of Aaa or better by Moody's;

(b) if not AAA/Aaa, AA/Aa if the PARS Rate Bonds shall have a rating of AA- or better by S&P and a rating of Aa3 or better by Moody's;

(c) if not AAA/Aaa or AA/Aa, A/A if the PARS Rate Bonds shall have a rating of A- or better by S&P and a rating of A3 or better by Moody's; and

(d) if not AAA/Aaa, AA/Aa or A/A, then below A/A, whether or not the PARS Rate Bonds are rated by any securities rating agency.

For purposes of this definition, S&P's rating categories of "AAA", "AA" and "A-" and Moody's rating categories of "Aaa," "Aa3" and "A3," shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the PARS Rate Bonds are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the PARS Rate Bonds are split between two or more of the foregoing categories, the lower rating will determine the Prevailing Rating.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Issuer, the Trustee and each Broker-Dealer.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Issuer which agrees to follow the procedures required to be followed by such securities depository in connection with the PARS Rate Bonds.

"Sell Order" shall have the meaning specified in subsection (a) of Section 1.02 of Exhibit B hereto.

"Submission Deadline" means 1:00 p.m., New York, New York time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York, New York time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Submitted Hold Order" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Submitted Order" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Submitted Sell Order" shall have the meaning specified in subsection (b) of Section 1.04 of Exhibit B hereto.

"Sufficient Clearing Bids" means an Auction for which the aggregate principal amount of the PARS Rate Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum PARS Rate is not less than the aggregate principal amount of the PARS Rate Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum PARS Rate.

"Winning Bid Rate" means the lowest rate in any Submitted Bid which, if selected by the Auction Agent as the PARS Rate, would cause the aggregate principal amount of PARS Rate Bonds that are the subject of Submitted Bids specifying a rate not greater than such a rate to be at least equal to the aggregate principal amount of Available Bonds.

SECTION 1.03. RULES OF CONSTRUCTION. Unless the context otherwise requires:

(a) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;

(b) references to Articles and Sections are to the Articles and Sections of this Indenture or the Agreement, as the case may be;

(c) words importing the singular number shall include the plural number and vice versa and words importing the masculine shall include the feminine and vice versa; and

(d) the headings and Table of Contents herein are solely for convenience of reference and shall not constitute a part of this Indenture nor shall they affect its meanings, construction or effect.

ARTICLE II

THE BONDS

SECTION 2.01. AUTHORIZATION AND TERMS OF BONDS.

(a) There is hereby authorized and created under this Indenture an issue of bonds designated as City of Forsyth, Montana, Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999B. The total aggregate principal amount of Bonds that may be issued and Outstanding under this Indenture is expressly limited to $17,000,000 exclusive of Bonds executed and authenticated as provided in Section 2.07 hereof; provided however, that no Bonds shall be delivered hereunder until the Trustee receives a request and authorization of the Issuer signed by the Executive Officer to authenticate and deliver the principal amount of the Bonds therein specified to the purchaser or purchasers therein identified upon payment to the Prior Trustee, for the account of the Issuer, of the sum specified in such request and authorization.

(b) The Bonds shall be issued as registered Bonds, without coupons, in Authorized Denominations and shall all be dated as of the Issue Date. The Bonds shall mature, subject to prior redemption as provided in Article IV hereof, upon the terms and conditions hereinafter set forth, on the Maturity Date. The Bonds shall bear interest at the rate or rates determined as provided in this Article II.

(c) The Bonds shall be numbered consecutively from 1 upward. Each Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless it is registered and authenticated on or prior to the first Interest Payment Date, in which event it shall bear interest from the Issue Date; provided, however, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date. Payment of the interest on any Bond shall be made to the person appearing on the bond registration books of the Registrar as the registered Owner thereof on the Record Date, such interest to be paid by the Paying Agent to such registered Owner, as follows:

(1) in respect of any Bond which is registered in the book-entry system pursuant to Section 2.16 hereof, in immediately available funds by no later than 2:30 p.m., New York, New York time, and

(2) in respect of any Bond which is not registered in the book-entry system pursuant to Section 2.16 hereof, (i) by bank check mailed by first-class mail on the Interest Payment Date, to such Owner's address as it appears on the registration books of the Registrar or at such other address as has been furnished to the Registrar in writing by such Owner, or (ii) during any Rate Period other than a Term Interest Rate Period, in immediately available funds on the Interest Payment Date (by wire transfer or by deposit to the account of the Owner of any such Bond if such account is maintained with the

Paying Agent), but in respect of any Owner of Bonds during a Daily Interest Rate Period, a Weekly Interest Rate Period or a Flexible Interest Rate Period, only to any Owner which owns Bonds in an aggregate principal amount of at least $1,000,000 on the Record Date, according to the written instructions given by such Owner to the Paying Agent or, if no such instructions have been provided as of the Record Date, by bank check mailed by first-class mail on the Interest Payment Date to the Owner at such Owner's address as it appears as of the Record Date on the registration books of the Registrar, except, in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the Owners in whose name any such Bonds are registered as of a special record date to be fixed by the Trustee, notice of which shall be given to such Owners not less than ten (10) days prior thereto.

Both the principal of and premium, if any, on the Bonds shall be payable upon surrender thereof in lawful money of the United States of America at the Principal Office of the Paying Agent. Notwithstanding the foregoing, interest on any Bond bearing a Flexible Interest Rate and not registered in the book-entry system pursuant to Section 2.16 hereof shall be paid only upon presentation to the Trustee of the Bond on which such payment is due.

SECTION 2.02. INTEREST RATES AND RATE PERIODS.

(a) General. The Bonds shall bear interest from and including the Issue Date until final payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise, at the lesser of (A) the Maximum Interest Rate or (B) the interest rate or rates determined as provided in this Article II. Such rate or rates shall be effective for the periods set forth in this Article II. During any Rate Period other than a PARS Rate Period or a Term Interest Rate Period, interest on the Bonds shall be computed upon the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed. During any PARS Rate Period, interest on the Bonds shall be computed on the basis of a 360-day year for the actual number of days elapsed except that interest during a six month Auction Period shall be calculated on the basis of a 360-day year composed of twelve 30-day months. During any Term Interest Rate Period, interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Notwithstanding any other provision of this Indenture, it shall not be required that all Bonds bear interest at the same rate, provided that only one Rate Period may apply to the Bonds. Not later than 11:15 a.m. (New York, New York time) on the Business Day immediately following the day on which there has been a change in the rate of interest applicable to the Bonds, the Remarketing Agent shall give notice of such change to the Trustee by telephone, promptly confirmed in writing. The Trustee hereby agrees to give telephonic notice to the Company, promptly confirmed in writing, on each Record Date of the amount of interest to be due and payable on the Bonds on the next succeeding Interest Payment Date.

(b) Rate Periods. The term of the Bonds shall be divided into consecutive Rate Periods during which the Bonds shall bear interest at the PARS Rate, Daily Interest Rate, Weekly Interest Rate, Term Interest Rate or at Flexible Interest Rates. During the initial Rate Period, the Bonds shall bear interest at a PARS Rate.

(c) Initial Period. The Bonds shall bear interest at the PARS Rate of 3.60% per annum for the Initial Period. Immediately following the Initial Period, the Bonds shall bear interest at PARS Rates established for daily Auction Periods unless, prior to the end of the Initial Period, the Company changes the length of the Auction Periods immediately succeeding the Initial Period to a longer Auction Period in accordance with Section 1.09 of Exhibit B hereto.

(d) Determination Conclusive. The determination of each PARS Rate by the Auction Agent and of each Flexible Interest Rate, Daily Interest Rate, Weekly Interest Rate and Term Interest Rate and each Flexible Segment by the Remarketing Agent, as the case may be, shall be conclusive and binding upon such parties, the Trustee, the Paying Agent, the Issuer, the Company, the Owners of the Bonds and any provider of a Credit Facility.

(e) Conversions Subject to Compliance With Credit Facility Agreement. The Bonds shall not be converted from one Rate Period to a different Rate Period unless any applicable conditions precedent to such conversion specified in the Credit Facility Agreement (unless a Provider Default shall have occurred and be continuing) have been satisfied.

SECTION 2.03. PARS RATES; CONVERSIONS TO AND FROM PARS RATE PERIODS.

(a) Determination and Notice of PARS Rates. The PARS Rate to be applicable to the PARS Rate Bonds during each Auction Period shall be determined by the Auction Agent and notice thereof shall be given, all as provided in Exhibit B hereto. Exhibit B hereto is hereby incorporated herein by this reference.

(b) Conversions to PARS Rate Periods. At the option of the Company and subject to Section 2.02(e), all of the Bonds may be converted to a PARS Rate Period from any other Rate Period as follows:

(i) In any such conversion from a Daily Interest Rate Period or a Weekly Interest Rate Period, the PARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which interest is payable for the Daily Interest Rate Period or the Weekly Interest Rate Period from which the conversion is to be made. In any such conversion from a Term Interest Rate Period, the PARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which a new Term Interest Rate Period would otherwise have commenced, and in any such conversion from a Flexible Interest Rate Period, the PARS Rate Conversion Date shall be the last regularly scheduled Interest Payment Date on which interest is payable for any Flexible Segment theretofore established for the Bonds to be converted.

(ii) The Company shall give written notice of any such conversion to the Auction Agent, any Remarketing Agent, the Issuer, the Trustee and any provider of a Credit Facility not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the PARS Rate Conversion Date and the length of the initial Auction Period. Together with such notice, the Company shall file with the Issuer, the Trustee and any provider of a Credit Facility a Favorable Opinion of Bond Counsel.

No such change to a PARS Rate Period shall become effective unless the Company shall also file, with the Issuer and the Trustee, such a Favorable Opinion of Bond Counsel dated the PARS Rate Conversion Date.

(iii) Not less than fifteen (15) days prior to the PARS Rate Conversion Date the Trustee shall mail a written notice of the conversion to the Owners of all Bonds to be converted; provided, however, that the Trustee shall not mail such written notice if converting from a Flexible Rate Period until it has received a written confirmation from the Remarketing Agent that no Flexible Segment for the Bonds extends beyond the PARS Rate Conversion Date. Such notice shall state that the Bonds to be converted will be subject to mandatory purchase on the PARS Rate Conversion Date at the purchase price determined pursuant to Section 3.02(a) and will specify the time at which Bonds are to be tendered for purchase.

(iv) The PARS Rate for the Auction Period commencing on the PARS Rate Conversion Date shall be determined by the Broker-Dealer before the Conversion Date and shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at the principal amount thereof, plus accrued interest, if any, on the PARS Rate Conversion Date. Such determination shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Auction Agent and the Owners and Beneficial Owners of the Bonds to which such rate will be applicable.

(v) Not later than 5:00 p.m., New York, New York time, on the date of determination of the PARS Rate, the Broker-Dealer shall notify the Trustee and the Company of such rate by telephone confirmed in writing. Not later than 5:00 p.m., New York, New York time, on the next succeeding Business Day, the Trustee shall give notice of such rate to the Issuer and the Auction Agent.

(vi) The Company may revoke its election to effect a conversion of the interest rate on any Bonds to a PARS Rate by giving written notice of such revocation to the Issuer, the Trustee, the Remarketing Agent, the Auction Agent, the Broker-Dealer and any provider of a Credit Facility at any time prior to the setting of the PARS Rate by the Broker-Dealer.

(c) Conversions From PARS Rate Periods. At the option of the Company and subject to Section 2.02(e), all of the Bonds may be converted from a PARS Rate Period to a Daily Interest Rate Period, a Weekly Interest Rate Period, a Term Interest Rate Period or a Flexible Interest Rate Period, as follows:

(i) If the PARS are in an Auction Period other than the daily Auction Period, the conversion date shall be the second regularly scheduled Interest Payment Date following the final Auction Date. If the PARS are in a daily Auction Period, the conversion date shall be the next regularly scheduled Interest Payment Date.

(ii) The Company shall give written notice of any such conversion to the Issuer, the Trustee, the Auction Agent, the Broker-Dealer and any provider of a Credit

Facility not less than seven (7) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the conversion date and the Rate Period to which the conversion will be made and, if applicable, the length of any Term Rate Period. Together with such notice, the Company shall file with the Issuer and the Trustee a Favorable Opinion of Bond Counsel regarding such conversion. No conversion shall become effective unless the Company shall also file, with the Issuer, the Trustee and any provider of a Credit Facility, such a Favorable Opinion of Bond Counsel dated the date of such conversion.

(iii) Not less than twenty (20) days prior to the conversion date, the Trustee shall mail a written notice of the conversion to the Owners of all Bonds to be converted, specifying the Rate Period to which the Bonds are being converted, stating that the Bonds to be converted will be subject to mandatory purchase on the conversion date at the purchase price determined pursuant to Section 3.02(a), specifying the time at which Bonds are to be tendered for purchase, stating any conditions precedent to such conversion and stating that, if such conditions are not satisfied, the Bonds will continue to bear interest at PARS Rates but that the Bonds will be subject to mandatory purchase in accordance with the last paragraph of Section 2.08 hereof.

SECTION 2.04. DAILY INTEREST RATE; ADJUSTMENT TO DAILY INTEREST RATE PERIOD.

(a) Determination of Daily Interest Rate. During each Daily Interest Rate Period, the Bonds shall bear interest at the Daily Interest Rate determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate shall be the rate determined by the Remarketing Agent (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Daily Interest Rate for any day by 10:00 a.m., New York, New York time, the Daily Interest Rate for such day shall be the same as the Daily Interest Rate for the immediately preceding day. The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Daily Interest Rate on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to Daily Interest Rate Period. At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent may, subject to Section 2.02(e), elect that the Bonds shall bear interest at a Daily Interest Rate. Such notice (A) shall specify the effective date of such adjustment to a Daily Interest Rate, which shall be (1) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period, and (3) in the case of an adjustment from a

Flexible Interest Rate Period, the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.07(d) hereof; provided, however, that if prior to the Company's mailing of notice of such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Daily Interest Rate Period shall not precede such redemption date; and (B) if the adjustment is from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment.

(c) Notice of Adjustment to Daily Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to a Daily Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Daily Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to a Daily Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date of such Daily Interest Rate Period, (C) that such Bonds are subject to mandatory purchase on such effective date, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

SECTION 2.05. WEEKLY INTEREST RATE; ADJUSTMENT TO WEEKLY INTEREST RATE PERIOD.

(a) Determination of Weekly Interest Rate. During each Weekly Interest Rate Period, the Bonds shall bear interest at the Weekly Interest Rate determined by the Remarketing Agent no later than the first day of such Weekly Interest Rate Period and thereafter no later than Tuesday of each week during such Weekly Interest Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Interest Rate shall be determined by the Remarketing Agent no later than the Business Day next preceding such Tuesday. The Weekly Interest Rate shall be the rate determined by the Remarketing Agent (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If the Remarketing Agent shall not have determined a Weekly Interest Rate for any period, the Weekly Interest Rate shall be the same as the Weekly Interest Rate in effect for the immediately preceding week. The first Weekly Interest Rate determined for each Weekly Interest Rate Period shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on each Wednesday and ending on the next succeeding Tuesday, unless such Weekly Interest Rate Period shall end on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on such last day. The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Weekly Interest Rate on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to Weekly Interest Rate Period. The Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent may, subject to Section 2.02(e), at any time elect that the Bonds shall bear interest at a Weekly Interest Rate. Such notice (A) shall specify the effective date of such adjustment to a Weekly Interest Rate, which shall be (1) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (3) in the case of an adjustment from a Flexible Interest Rate Period the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.07(d); provided however, that if prior to the Company's making such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Weekly Interest Rate Period shall not precede such redemption date; and (B) if the adjustment is from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment.

(c) Notice of Adjustment to Weekly Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to a Weekly Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Weekly Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to a Weekly Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date of such Weekly Interest Rate Period, (C) that such Bonds are subject to mandatory purchase on such effective date, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

SECTION 2.06. TERM INTEREST RATE; ADJUSTMENT TO TERM INTEREST RATE PERIOD.

(a) Determination of Term Interest Rate. During each Term Interest Rate Period, the Bonds shall bear interest at the Term Interest Rate determined by the Remarketing Agent on a Business Day selected by the Remarketing Agent, but not more than 60 days prior to and not later than the effective date of such Term Interest Rate Period. The Term Interest Rate shall be the rate determined by the Remarketing Agent on such date as being the lowest rate (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) which would enable the Remarketing Agent to sell the Bonds on the effective date of such Term Interest Rate Period at a price (without regard to accrued interest) equal to 100% of the principal amount thereof, provided however, that if, for any reason, a Term Interest Rate for any Term Interest Rate Period shall not be determined or become effective, then (A) in the event the then-current Term Interest Rate Period is for one year or less, the Rate Period for the Bonds shall automatically convert to a Daily Interest Rate Period and (B) in the event the current Term Interest Rate Period is for more than one year, the Rate Period for the Bonds shall automatically adjust to a Term Interest Rate Period of one year and one day; provided, however, that if the last day of any successive Term

Interest Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Interest Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Interest Rate Period would end after the day prior to the final maturity date of the Bonds, the next succeeding Rate Period shall be a Term Interest Rate Period ending on the day prior to the final maturity date of the Bonds; provided further that in the case of clause (B) above, if the Company delivers to the Trustee a Favorable Opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds will adjust to a Daily Interest Rate Period. If the Daily Interest Rate for the first day of a Daily Interest Rate Period described in clause (A) above is not determined as provided in Section 2.04(a) hereof the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer). If a Term Interest Rate for any such Term Interest Rate Period described in clause (B) above is not determined as described in the first sentence of this Section 2.06(a), the Term Interest Rate for such Term Interest Rate Period shall be 110% of the most recent One-Year Note Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer). The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Term Interest Rate on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to or Continuation of Term Interest Rate Period. At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent, may, subject to Section 2.02(e), elect that the Bonds shall bear, or continue to bear, interest at a Term Interest Rate and shall determine the duration of the Term Interest Rate Period during which such Bonds shall bear interest at such Term Interest Rate. At the time the Company so elects an adjustment to or continuation of a Term Interest Rate Period, the Company may specify two or more consecutive Term Interest Rate Periods and, if the Company so specifies, shall specify the duration of each such Term Interest Rate Period as provided in this paragraph (b). Such notice shall specify the effective date of each Term Interest Rate Period, which shall be (A) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee); (B) in the case of an adjustment from a Term Interest Period to a Term Interest Period of a different duration or the continuation of a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period; and (C) in the case of an adjustment from a Flexible Interest Rate Period the day immediately following the last day of the then-current Flexible Interest Rate Period as determined in accordance with Section 2.07(d) hereof; provided, however, that if prior to the Company's making such election, any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the

effective date of such Term Interest Rate Period shall not precede such redemption date. In addition, such notice (x) shall specify the last day of such Term Interest Rate Period (which shall be either the day preceding the date of final maturity of the Bonds or a day which both immediately precedes a Business Day and is at least 180 days after such effective date), and (y) unless such Term Interest Rate Period immediately succeeds a Term Interest Rate Period of the same duration and is subject to the same optional redemption rights under Section 4.02(b)(iv) hereof, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment.

If, by 15 days prior to the end of the then-current Term Interest Rate Period, the Trustee shall not have received notice of the Company's election that the Bonds shall bear interest at a PARS Rate, a Daily Interest Rate, a Weekly Interest Rate, a Term Interest Rate or a Flexible Interest Rate, (A) in the event the then-current Term Interest Rate Period is for one year or less, the Rate Period for the Bonds shall automatically convert to a Daily Interest Rate Period and (B) in the event the current Term Interest Rate Period is for more than one year, the Rate Period for the Bonds shall automatically adjust to a Term Interest Rate Period of one year and one day, provided however, that if the last day of any successive Term Interest Rate Period shall not be a day immediately preceding a Business Day, then such successive Term Interest Rate Period shall end on the first day immediately preceding the Business Day next succeeding such day or, if such Term Interest Rate Period would end after the day prior to the Maturity Date, the next succeeding Rate Period shall be a Term Interest Rate Period ending on the day prior to the Maturity Date; provided however, that in the case of clause (B) above, if the Company delivers to the Trustee a Favorable Opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds will adjust to a Daily Interest Rate Period. If the Daily Interest Rate for the first day of a Daily Interest Rate Period described in clause (A) above is not determined as provided in Section 2.04(a) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer). If a Term Interest Rate for any such Term Interest Rate Period described in clause (B) above is not determined as described in the first sentence of this Section 2.06(a), the Term Interest Rate for such Term Interest Rate Period shall be 110% of the most recent One-Year Note Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the One-Year Note Index, the one-year note index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as the most comparable to The Bond Buyer).

At the same time that the Company elects to have the Bonds bear interest at a Term Interest Rate or to continue to bear interest at a Term Interest Rate, the Company may also elect that such Term Interest Rate Period shall be automatically renewed for successive Term Interest Rate Periods each having the same duration as the Term Interest Rate Period so specified; provided however, that such election must be accompanied by a Favorable Opinion of Bond Counsel with respect to such continuing automatic renewals of such Term Interest Rate Period. If such election is made, no Favorable Opinion of Bond Counsel shall be required in connection

with the commencement of each successive Term Interest Rate Period determined in accordance with such election. Further, at the same time that the Company elects to have the Bonds bear interest at a Term Interest Rate or continue to bear interest at a Term Interest Rate, subject to the provisions of Section 4.02(c) hereof the Company may also specify to the Trustee optional redemption prices and periods different from those set out in Section 4.02 hereof during the Term Interest Rate Period(s) with respect to which such election is made.

(c) Notice of Adjustment to or Continuation of Term Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to or continuation of a Term Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Term Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to, or continue to be, a Term Interest Rate (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date and the last date of such Term Interest Rate Period, (C) that the Term Interest Rate for such Term Interest Rate Period will be determined not later than the effective date thereof (D) how such Term Interest Rate may be obtained from the Remarketing Agent, (E) the Interest Payment Dates after such effective date, (F) that, during such Term Interest Rate Period, the Owners of such Bonds will not have the right to tender their Bonds for purchase, (G) the redemption provisions that will apply to the Bonds during such Term Interest Rate Period, and (H) that, except when the new Term Interest Rate Period is preceded by a Term Interest Rate Period of the same duration, such Bonds are thereby subject to mandatory purchase on such effective date, the procedures for such mandatory purchase, the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), and the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

SECTION 2.07. FLEXIBLE INTEREST RATE; ADJUSTMENT TO FLEXIBLE INTEREST RATE PERIOD.

(a) Determination of Flexible Segments and Flexible Interest Rates. During each Flexible Interest Rate Period, each Bond shall bear interest during each Flexible Segment for such Bond at the Flexible Interest Rate for such Bond as described herein. Each Flexible Segment and Flexible Interest Rate for each Bond shall be the Flexible Segment and Flexible Interest Rate determined by the Remarketing Agent. Each Flexible Segment for any Bond shall be a period of not less than one nor more than 270 days (subject to any limitations set forth in the Remarketing Agreement), determined by the Remarketing Agent to be, in its judgment, the period which, together with all other Flexible Segments for the Bonds then outstanding, is likely to result in the lowest overall net interest expense on the Bonds; provided however, that (A) any such Bond purchased on behalf of the Company and remaining unsold in the hands of the Remarketing Agent as of the close of business on the effective date of the Flexible Segment for such Bond shall have a Flexible Segment of one day or, if such Flexible Segment would not end on a day immediately preceding a Business Day, a Flexible Segment of more than one day ending on the day immediately preceding the next Business Day and (B) each Flexible Segment shall end on a day which immediately precedes a Business Day and no Flexible Segment shall extend beyond the final maturity date of the Bonds.

The Flexible Interest Rate for each Flexible Segment for each Bond shall be the rate determined by the Remarketing Agent (based on an examination of Tax-Exempt obligations comparable to the Bonds known by the Remarketing Agent to have been priced or traded under

then prevailing market conditions) no later than the first day of such Flexible Segment (and in the case of a Flexible Segment of one day, no later than 12:30 p.m. New York, New York time, on such date) to be the lowest rate which would enable the Remarketing Agent to sell the Bonds on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount thereof. If a Flexible Segment or a Flexible Interest Rate for a Flexible Segment is not determined or effective, the Flexible Segment for such Bond shall be a Flexible Segment of one day, and the interest rate for such Flexible Segment of one day shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent, or, if the Remarketing Agent is the Trustee, determined by the Company, as most comparable to The Bond Buyer). The Remarketing Agent shall notify the Company, the Trustee and the Paying Agent of each Flexible Interest Rate and Flexible Segment on the date of the determination thereof by written notice communicated by electronic mail, by facsimile or by other means acceptable to the Company, the Trustee, and the Paying Agent.

(b) Adjustment to Flexible Interest Rate Period. At any time, the Company, by written notice to the Issuer, the Trustee, the Paying Agent and the Remarketing Agent, may, subject to Section 2.02(e), elect that the Bonds shall bear interest at Flexible Interest Rates. Such notice (A) shall specify the effective date of the Flexible Interest Rate Period during which such Bonds shall bear interest at Flexible Interest Rates, which shall be (1) a Business Day not earlier than the fifteenth day following the fifth Business Day after the date of receipt by the Trustee and the Paying Agent of such notice (or such shorter period after the date of such receipt as shall be acceptable to the Trustee), and (2) in the case of an adjustment from a Term Interest Rate Period, a day on which the Bonds would be permitted to be redeemed at the option of the Company pursuant to Section 4.02(b)(iv) hereof or the day immediately following the last day of the then-current Term Interest Rate Period, provided however, that if prior to the Company's making such election any Bonds shall have been called for redemption and such redemption shall not have theretofore been effected, the effective date of such Flexible Interest Rate Period shall not precede such redemption date; and (B) in the case of an adjustment from a Term Interest Rate Period having a duration in excess of one year, shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such adjustment. During each Flexible Interest Rate Period commencing on the date so specified (provided that the Favorable Opinion of Bond Counsel described in clause (B) above, if required, is reaffirmed as of such date) and ending on the day immediately preceding the effective date of the next succeeding Rate Period, each Bond shall bear interest at a Flexible Interest Rate during each Flexible Segment for such Bond.

(c) Notice of Adjustment to Flexible Interest Rate Period. The Trustee shall give notice by Mail of an adjustment to a Flexible Interest Rate Period to the Owners not less than 15 days prior to the effective date of such Flexible Interest Rate Period. Such notice shall state (A) that the interest rate on the Bonds will be adjusted to Flexible Interest Rates (subject to the Company's ability to rescind its election as provided in Section 2.08 hereof), (B) the effective date of such Flexible Interest Rate Period, (C) that such Bonds are thereby subject to mandatory purchase on the effective date of such Flexible Interest Rate Period, (D) the procedures for such mandatory purchase, (E) the purchase price of such Bonds on such effective date (expressed as a

percentage of the principal amount thereof), and (F) that the Owners of such Bonds do not have the right to retain their Bonds on such effective date.

(d) Adjustment From Flexible Interest Rates. At any time during a Flexible Interest Rate Period, the Company may elect that the Bonds shall no longer bear interest at Flexible Interest Rates and shall instead bear interest as otherwise permitted under this Indenture. The Company shall notify the Issuer, the Trustee, the Paying Agent and the Remarketing Agent of such election by Mail and shall specify the Rate Period to follow with respect to such Bonds upon cessation of the Flexible Interest Rate Period and instruct the Remarketing Agent to determine Flexible Segments of such duration that, as soon as possible, all Flexible Segments shall end on the same date, not earlier than the day that would permit the notices required by Sections 2.03(b)(iii), 2.04(c), 2.05(c) or 2.06(c), as applicable, to be given, and such date shall be the last day of the then current Flexible Interest Rate Period. Upon the establishment of such Flexible Segments, the day next succeeding the last day of all such Flexible Segments shall be the effective date of the Rate Period elected by the Company. The Remarketing Agent, promptly upon the determination thereof, shall give written notice of such last day and such effective dates to the Issuer, the Company, the Trustee and the Paying Agent.

SECTION 2.08. RESCISSION OF ELECTION. Notwithstanding anything herein to the contrary, the Company may rescind any election by it to adjust to or, in the case of a Term Interest Rate Period, continue a Rate Period pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof prior to the effective date of such adjustment or continuation or, as provided in Section 2.03(b)(vi) hereof, prior to the setting of the PARS Rate by the Broker-Dealer, by giving written notice thereof to the Issuer, the Trustee, the Paying Agent, any Auction Agent and any Remarketing Agent prior to such effective date. At the time that the Company gives notice of rescission, it may also elect in such notice to continue the Rate Period then in effect; provided however, that if the Rate Period then in effect is a Term Interest Rate Period, the subsequent Term Interest Rate Period shall not be of a different duration than the Term Interest Rate Period then in effect unless the Company provides to the Trustee a Favorable Opinion of Bond Counsel prior to the expiration of the then-current Term Interest Rate Period. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Bonds of the change in or continuation of Rate Periods pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof, then such notice of change in or continuation of Rate Periods shall be of no force and effect and shall not be given to the Owners. If the Trustee receives notice of such rescission after the Trustee has given notice to the Owners of the Bonds pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof of an adjustment from any Rate Period other than a Term Interest Rate Period in excess of one year or if an attempted adjustment from one Rate Period (other than a Term Interest Rate Period in excess of one year) to another Rate Period does not become effective for any other reason, and if the Company does not elect to continue the Rate Period then in effect, then the Rate Period for the Bonds shall automatically adjust to or continue in a Daily Interest Rate Period and the Trustee shall promptly give notice thereof to the Owners of the Bonds. If the Trustee receives notice of such rescission after the Trustee has given notice to the Owners of the Bonds pursuant to Section 2.03, Section 2.04, Section 2.05, Section 2.06 or Section 2.07 hereof of an adjustment from

a Term Interest Rate Period in excess of one year to another Rate Period (including a Term Interest Rate Period of a different duration), or if an attempted adjustment from a Term Interest Rate Period in excess of one year to another Rate Period (including a Term Interest Rate Period of a different duration) does not become effective for any reason and if the Company does not elect to continue the Rate Period then in effect, then the Rate Period for the Bonds shall continue to be a Term Interest Rate Period of the same duration as the immediately preceding Term Interest Rate Period, subject to the second proviso contained in Section 2.06(a); provided that if the Company delivers to the Trustee a Favorable Opinion of Bond Counsel prior to the end of the then-effective Term Interest Rate Period, the Rate Period for the Bonds shall be as directed by the Company in writing. If a Daily Interest Rate for the first day of any Daily Interest Rate Period to which a Rate Period is adjusted under this Section 2.08 is not determined as provided in Section 2.04(a) hereof, the Daily Interest Rate for the first day of such Daily Interest Rate Period shall be 110% of the most recent PSA Municipal Swap Index theretofore published in The Bond Buyer (or, if The Bond Buyer is no longer published or no longer publishes the PSA Municipal Swap Index, the variable rate index contained in the publication determined by the Remarketing Agent or if the Remarketing Agent is the Trustee, determined by the Company, as most comparable to The Bond Buyer). The Trustee shall promptly give written notice of each such automatic adjustment to a Rate Period pursuant to this Section 2.08 to the Owners in the form provided in Section 2.04(c) hereof.

Notwithstanding the rescission by the Company of any notice to adjust to or from or continue a Rate Period, if notice has been given to Owners pursuant to Section 2.03(b)(iii), Section 2.03(c)(iii), Section 2.04(c), Section 2.05(c), Section 2.06(c) or Section 2.07(c), the Bonds shall be subject to mandatory purchase as specified in such notice.

SECTION 2.09. FORM OF BONDS. The Bonds and the certificate of authentication to be executed thereon shall be in substantially the form attached hereto as Exhibit A, with such appropriate variations, omissions and insertions as are permitted or required by this Indenture. Upon adjustment to a Term Interest Rate Period, the form of Bond may include a summary of the mandatory and optional redemption provisions to apply to the Bonds during such Term Interest Rate Period, or a statement to the effect that the Bonds will not be optionally redeemed during such Term Interest Rate Period; provided that the Registrar shall not authenticate such a revised Bond form prior to receiving a Favorable Opinion of Bond Counsel that such Bond form satisfies the requirements of the Act and of this Indenture and that authentication thereof will not adversely affect the Tax-Exempt status of the Bonds.

SECTION 2.10. EXECUTION OF BONDS. The Bonds shall be signed in the name and on behalf of the Issuer with the manual or facsimile signature of its Mayor and attested by the manual or facsimile signature of the City Clerk. The Bonds shall then be delivered to the Registrar for authentication by it. In case any officer who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed or attested shall have been authenticated or delivered by the Registrar or issued by the Issuer, such Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issuance, shall be as binding upon the Issuer as though those who signed and attested the same had continued to be such officers of the Issuer. Also, any Bond may be signed on behalf of the Issuer by such persons as on the actual date of the execution of such Bond shall be the proper officers although on the nominal date of such Bond any such person shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in the form set forth in Exhibit A hereto, manually executed by an authorized signatory of the Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Registrar shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Upon authentication of any Bond, the Registrar shall set forth on such Bond (1) the date of such authentication and (2) in the case of a Bond bearing interest at a Flexible Interest Rate and not registered in the book-entry system pursuant to Section 2.16 hereof, such Flexible Interest Rate, the last day of the applicable Flexible Segment, the number of days comprising such Flexible Segment and the amount of interest to accrue during such Flexible Segment.

SECTION 2.11. TRANSFER AND EXCHANGE OF BONDS. Registration of any Bond may, in accordance with the terms of this Indenture, be transferred at the Principal Office of the Registrar, upon the books of the Registrar required to be kept pursuant to the provisions of Section 2.12 hereof, by the Person in whose name it is registered, in person or by its attorney duly authorized in writing, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. The Registrar shall require the payment by the Owner of the Bond requesting such transfer of any tax or other governmental charge required to be paid and there shall be no other charge to any Owners for any such transfer. Whenever any Bond shall be surrendered for registration of transfer, the Issuer shall execute and the Registrar shall authenticate and deliver a new Bond or Bonds of the same tenor and of Authorized Denominations. Except with respect to Bonds purchased pursuant to Sections 3.01 and 3.02 hereof, no registration of transfer of Bonds shall be required to be made for a period of fifteen (15) days next preceding the date on which the Trustee Mails any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required, except the unredeemed portion of any Bond being redeemed in part.

Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor and of Authorized Denominations. The Registrar shall require the payment by the Owner of the Bond requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange. Except with respect to Bonds purchased pursuant to Section 3.01 and Section 3.02 hereof, no exchange of Bonds shall be required to be made for a period of fifteen (15) days next preceding the date on which the Trustee Mails notice of redemption, nor shall any exchange of Bonds called for redemption be required, except the unredeemed portion of any Bond being redeemed in part.

The Issuer, the Registrar, the Trustee and any agent of the Issuer, the Registrar or the Trustee may treat the person in whose name the Bond is registered as the owner thereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not the Bond be overdue, and neither the Issuer, the Registrar, the Trustee, any paying agent nor any such agent shall be affected by notice to the contrary.

SECTION 2.12. BOND REGISTER. The Registrar will keep or cause to be kept at its Principal Office sufficient books for the registration and the registration of transfer of the Bonds, which

shall at all times, during regular business hours, be open to inspection by the Issuer, the Trustee, the Provider, the Remarketing Agent and the Company; and, upon presentation for such purpose, the Registrar shall under such reasonable regulations as it may prescribe, register the transfer or cause to be registered the transfer, on said books, Bonds as hereinbefore provided.

SECTION 2.13. BONDS MUTILATED, LOST, DESTROYED OR STOLEN. If any Bond shall become mutilated, the Issuer, upon the request and at the expense of the Owner of said Bond, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Registrar of the Bond so mutilated. Every mutilated Bond so surrendered to the Registrar shall be canceled by it and delivered to the Company. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Issuer, the Company and the Registrar, and if such evidence shall be satisfactory to them and indemnity satisfactory to them shall be given, the Issuer, at the expense of the Owner, shall execute, and the Registrar shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond the Registrar may pay the same without surrender thereof). The Issuer may require payment of a reasonable fee for each new Bond issued under this Section and payment of the expenses which may be incurred by the Issuer and the Registrar. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Issuer whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

To the extent permitted by law, the provisions of this Section are exclusive and shall preclude all other rights and remedies with respect to the replacement or payment of mutilated, lost, destroyed or stolen Bonds.

SECTION 2.14. BONDS; LIMITED OBLIGATIONS. The Bonds, together with premium, if any, and interest thereon, shall be limited and not general obligations of the Issuer not constituting or giving rise to a pecuniary liability of the Issuer nor any charge against its general credit or taxing powers nor an indebtedness of or a loan of credit thereof within the meaning of any provision or limitation of the State Constitution or laws, shall be payable solely from the Revenues and other moneys pledged therefor under this Indenture, and shall be a valid claim of the respective Owners thereof only against the Bond Fund, the Revenues and other moneys held by the Trustee as part of the Trust Estate. The Issuer shall not be obligated to pay the purchase price of Bonds from any source.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR GENERAL OBLIGATION OF THE ISSUER, THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER, THE STATE OR OF ANY SUCH POLITICAL SUBDIVISION, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES AND PROCEEDS PROVIDED THEREFOR. THE ISSUER SHALL NOT BE OBLIGATED TO PAY THE SAME NOR INTEREST THEREON EXCEPT FROM THE REVENUES AND PROCEEDS PLEDGED THEREFOR, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE ISSUER, THE STATE OR OF ANY POLITICAL

SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS.

No recourse shall be had for the payment of the principal of, or premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in this Indenture, the Bonds, the Agreement or any other related documents, against any past, present or future officer, elected official agent or employee of the Issuer, or any incorporator, officer, director or member of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, officer, director or member as such is hereby expressly waived and released as a condition of and in consideration for the execution of this Indenture and the issuance of any of the Bonds.

SECTION 2.15. DISPOSAL OF BONDS. Upon payment of the principal of, premium, if any, and interest represented thereby or transfer or exchange pursuant to Section 2.11 hereof or, replacement pursuant to Section 2.13 hereof, any Bond shall be canceled and such Bond shall be disposed of by the Registrar in accordance with its customary procedures and the Registrar shall provide evidence satisfactory to the Company of such cancellation and disposition.

SECTION 2.16. BOOK-ENTRY SYSTEM.

(a) Unless otherwise determined by the Issuer, the Bonds shall be issued in the form of a single certificated fully-registered Bond, registered in the name of Cede & Co., as nominee of DTC, or any successor nominee (the "Nominee"). The actual owners of the Bonds (the "Beneficial Owners") will not receive physical delivery of Bond certificates except as provided herein. Except as provided in paragraph (d) below, all of the outstanding Bonds shall be so registered in the registration books kept by the Registrar, and the provisions of this Section shall apply thereto.

(b) With respect to Bonds registered on the registration books kept by the Registrar in the name of the Nominee, the Issuer, the Company, the Paying Agent, the Registrar, the Trustee and the Remarketing Agent shall have no responsibility or obligation to any DTC Participant or the Beneficial Owners. Without limiting the immediately preceding sentence, the Issuer, the Company, the Paying Agent, the Registrar, the Trustee and the Remarketing Agent shall have no responsibility or obligation to DTC, any DTC Participant or any Beneficial Owner with respect to (1) the accuracy of the records of DTC, the Nominee or any DTC Participant with respect to any ownership interest in the Bonds, (2) the delivery by DTC or any DTC Participant of any notice with respect to the Bonds, including any notice of redemption, or (3) the payment to any DTC Participant or Beneficial Owner of any amount with respect to principal or purchase price of, or premium, if any, or interest on, the Bonds. The Issuer, the Company, the Paying Agent, the Registrar, the Trustee and the Remarketing Agent may treat and consider the person in whose name each Bond is registered in the registration books kept by the Registrar as the owner and absolute owner of such Bond for the purpose of payment of principal purchase price, premium and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such

Bond, and for all other purposes whatsoever. The Paying Agent shall pay all principal of and premium if any, and interest on, the Bonds only to or upon the order of the respective Owners, as shown in the registration books kept by the Registrar, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payment of principal of, and premium, if any, and interest on, the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the registration books kept by the Registrar, shall receive a certificated Bond evidencing the obligation of the Issuer to make payments of principal, premium, if any, and interest pursuant to this Indenture.

(c) The Issuer, the Paying Agent, the Remarketing Agent and the Trustee shall execute and deliver to DTC a letter of representations in customary form with respect to the Bonds in book-entry form (the "DTC Representation Letter"), but such DTC Representation Letter shall not in any way limit the provisions of the foregoing paragraph (b) or in any other way impose upon the Issuer, the Trustee or the Paying Agent any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Registrar. The Trustee, the Remarketing Agent and the Paying Agent shall take all action necessary for all representations of the Issuer in the DTC Representation Letter with respect to the Trustee, the Remarketing Agent and the Paying Agent to be complied with at all times, including but not limited to, the giving of all notices required under the DTC Representation Letter. The Trustee and Paying Agent are hereby authorized by the Issuer to enter into the DTC Representation Letter.

(d) DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee and discharging its responsibilities with respect thereto under applicable law. The Issuer, with the consent of the Company, may terminate the services of DTC with respect to the Bonds. Upon the discontinuance or termination of the services of DTC with respect to the Bonds, unless a substitute securities depository is appointed to undertake the functions of DTC hereunder, the Issuer, at the expense of the Company, is obligated to deliver Bond certificates to the Beneficial Owners of such Bonds, as described in this Indenture, and such Bonds shall no longer be restricted to being registered in the registration books kept by the Registrar in the name of the Nominee, but may be registered in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

(e) Notwithstanding any other provision of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal or purchase price of or, premium if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the DTC Representation Letter. Owners shall have no lien or security interest in any rebate or refund paid by DTC to the Paying Agent which arises from the payment by the Paying Agent of principal of, or premium, if any, or interest on, the Bonds in immediately available funds to DTC.

(f) So long as any Bond is held in book-entry form a Beneficial Owner (through its DTC Participant) shall give notice to the Trustee to elect to have its Bonds purchased, and shall effect delivery of such Bonds by causing such DTC Participant to transfer its interest in the Bonds equal

to such Beneficial Owner's interest on the records of DTC to the Trustee's participant account with DTC. The requirement for physical delivery of the Bonds in connection with any purchase pursuant to Section 3.01 and Section 3.02 hereof shall be deemed satisfied when the ownership rights in the Bonds are transferred by DTC Participants on the records of DTC to the Trustee's participant account.

SECTION 2.17. PAYMENTS PURSUANT TO THE CREDIT FACILITY. So long as the Credit Facility shall be in effect, the Trustee, Registrar and Paying Agent shall observe the following provisions respecting the Credit Facility:

(a) If on the Business Day prior to each Interest Payment Date and prior to each date upon which the principal of the Bonds becomes due on the Maturity Date or pursuant to a mandatory redemption pursuant to Section 4.03 hereof, the Trustee has received actual notice that sufficient amounts will not be on deposit in the Bond Fund on such Interest Payment Date, Maturity Date or redemption date to pay the principal of or interest on the Bonds then maturing or subject to such mandatory redemption, or if the Trustee determines on any Interest Payment Date or on any date upon which the principal of the Bonds becomes due on the Maturity Date or pursuant to a mandatory redemption effected pursuant to Section 4.03 hereof that there are not sufficient funds in the Bond Fund to pay the principal of or interest on the Bonds coming due on such date, the Trustee shall so notify the Provider. Such notice shall specify the amount of the anticipated or actual deficiency, as the case may be, the Bonds to which such deficiency is applicable and whether such Bonds will be or are deficient as to principal or interest, or both. The Insurance Policy provides, in effect, that if the Trustee has not so notified the Provider at least one Business Day prior to an Interest Payment Date or prior to any date upon which the principal of the Bonds becomes due on the Maturity Date or pursuant to a mandatory redemption effected pursuant to Section 4.03 hereof, the Provider will make payments of principal or interest, or both, due on the Bonds on or before the first Business Day next following the date on which the Provider shall have received notice of nonpayment from the Trustee. Otherwise, such payments shall be made on such Interest Payment Date, Maturity Date or redemption date.

(b) The Trustee shall, after giving notice to the Provider as provided in (a) above, make available to the Provider and, at the Provider's direction, to the Insurance Trustee, the registration books of the Issuer maintained by the Registrar, and all records relating to the Bond Fund and any other funds and accounts maintained under this Indenture.

(c) The Trustee or the Registrar shall provide the Provider and the Insurance Trustee with a list of Owners entitled to receive principal or interest payments from the Provider under the terms of the Credit Facility, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners entitled to receive full or partial interest payments from the Provider and (ii) to pay principal upon Bonds surrendered or, if a book-entry system is in effect, ownership interests in Bonds transferred to the Insurance Trustee by the Owners or Beneficial Owners entitled to receive full or partial principal payments from the Provider.

(d) The Trustee shall, at the time it provides notice to the Provider pursuant to (a) above, notify the Owners entitled to receive the payment of principal thereof or interest thereon from the Provider (i) as to the fact of such entitlement, (ii) that the Provider will remit to them all or a part of the interest payments next coming due upon proof of the entitlement of such Owners to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Provider, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Provider) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, and (iv) that should they be entitled to receive partial payment of principal from the Provider, they must surrender their Bonds for payment thereon first to the Paying Agent, which shall note on such Bonds the portion of the principal previously paid by the Paying Agent, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal thereof. At any time that there is a DTC book-entry system in effect for the Bonds, the notice required pursuant to this Section 2.17 shall specify that, in lieu of surrendering the Bonds, the beneficial ownership interests to receive payment of such principal or interest shall be transferred on the records of DTC to the order of the Insurance Trustee.

(e) In the event that the Trustee or Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent shall, within five Business Days after it has notice that such payment has been deemed a preferential transfer, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Provider to the extent of such recovery if sufficient funds are not otherwise available, and the Paying Agent shall furnish to the Provider its records evidencing the payments of principal of and interest on the Bonds which have been made by the Paying Agent and subsequently recovered from Owners and the dates on which such payments were made.

(f) In addition to those rights granted the Provider under this Indenture, the Provider shall, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Credit Facility, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Registrar shall note the Provider's rights as subrogee on the registration books of the Issuer maintained by the Registrar upon receipt from the Provider of proof of the payment of interest thereon to the Owners, and (ii) in the case of subrogation as to claims for past due principal, the Registrar shall note the Provider's rights as subrogee on the registration books of the Issuer maintained by the Registrar upon surrender of the Bonds by the Owners thereof, together with proof of the payment of principal thereof.

SECTION 2.18. CHANGE OF CREDIT FACILITY.

(a) The Trustee shall give notice by Mail of a proposed Change of Credit Facility pursuant to Section 4.07(a) of the Agreement to the Owners prior to a date upon which the Owners can give the requisite notice to tender their Bonds on or prior to the effective date of such Change of Credit facility. Such notice shall (a) describe the proposed Change of Credit Facility (subject to the Company's ability to rescind its election to make such Change of Credit Facility), (b) state the effective date of such Change of Credit Facility, and (c) state such other matters as the Company may direct.

(b) The Trustee shall give notice by Mail of a proposed Change of Credit Facility pursuant to Section 4.07(b) of the Agreement to the Owners not less than 15 days prior to the effective date of such Change of Credit Facility. Such notice shall (a) describe the proposed Change of Credit Facility (subject to the Company's ability to rescind its election to make such Change of Credit Facility), (b) state the effective date of such Change of Credit Facility, (c) state that such Bonds are subject to mandatory purchase on or before such effective date pursuant to Section 3.02(a)(iii), (d) describe the procedures for such mandatory purchase and the date thereof, (e) state the purchase price of such Bonds on such effective date (expressed as a percentage of the principal amount thereof), (f) state that the Owners of such Bonds do not have the right to retain their Bonds on such effective date, and (g) state such other matters as the Company may direct.

SECTION 2.19. CUSIP NUMBERS. The Issuer in issuing the Bonds may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices of redemption as a convenience to Owners; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Bonds, and any such redemption shall not be affected by any defect in or omission of such numbers. The Issuer or the Company will promptly notify the Trustee and the Registrar of any change in any CUSIP number(s).

Neither the Issuer, the Registrar nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond, check, advice of payment or redemption notice, and any such document may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Issuer, the Registrar nor the Trustee shall be liable for any inaccuracy in such matters.

ARTICLE III

PURCHASE AND REMARKETING OF BONDS

SECTION 3.01. OWNER'S OPTION TO TENDER FOR PURCHASE.

(a) Daily Interest Rate Period. During any Daily Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner

thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (i) delivery to the Trustee at the Delivery Office of the Trustee, by no later than 11:00 a.m., New York, New York time, on such Business Day, of an irrevocable written notice or irrevocable notice by telephone (promptly confirmed by telecopy or other writing) which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond and the date on which the same shall be purchased, and (ii) subject to Section 2.16(f) hereof and the last paragraph of Section 3.03 hereof, delivery of such Bond tendered for purchase to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (i) above.

(b) Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (i) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable written notice or an irrevocable notice by telephone (promptly confirmed by telecopy or other writing), by 5:00 p.m., New York, New York time, on any Business Day, which states the principal amount of such Bond and the certificate number (if the Bonds are not then held in book-entry form) and the date on which the same shall be purchased, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee, and (ii) subject to Section 2.16(f) hereof and the last paragraph of Section 3.03 hereof, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (i) above.

(c) Term Interest Rate Period. Any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on the first day of any Term Interest Rate Period which is preceded by a Term Interest Rate Period of equal duration at a purchase price equal to 100% of the principal amount thereof upon (x) delivery to the Trustee at the Delivery Office of

the Trustee of an irrevocable notice in writing by 5:00 p.m., New York, New York time, on any Business Day not less than fifteen days before the purchase date, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond to be purchased, and (y) subject to Section 2.16(f) hereof and the last paragraph of Section 3.03 hereof delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m. New York, New York time, on the purchase date. The Trustee shall keep a written record of each notice described in clause (x) above.

(d) If any Bond is to be purchased in part pursuant to Section 3.01(a), Section 3.01(b) or Section 3.01(c) hereof, the amount so purchased and the amount not so purchased must each be an Authorized Denomination.

SECTION 3.02. MANDATORY PURCHASE.

(a) The Bonds shall be subject to mandatory purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date described below, upon the occurrence of any of the events stated below:

(i) as to any Bond, on the effective date of any change in a Rate Period with respect to such Bond, other than the effective date of a Term Interest Rate Period which was preceded by a Term Interest Rate Period of the same duration;

(ii) as to each Bond in a Flexible Interest Rate Period, on the Business Day next succeeding the last day of any Flexible Segment with respect to such Bond; or

(iii) as to any Bond, on the date set forth in any notice of a Change of Credit Facility given by the Company pursuant to Section 4.07(b) of the Agreement, which shall be a date that is on or before the effective date of such Change of Credit Facility, provided, however, that if the Bonds are then subject to optional redemption pursuant to Section 4.02(b)(iv), the purchase price shall include any premium that would have been payable upon such redemption had the Bonds been redeemed.

(b) When Bonds are called for redemption pursuant to Section 4.02(b)(iv) hereof and if the Company gives notice to the Trustee on or before the Business Day prior to the redemption date that the Company elects to have the Bonds purchased in lieu of redemption, all or any portion of the Bonds that the Company elects to purchase shall be subject to mandatory purchase on such redemption date at a purchase price equal to 100% of the principal amount thereof plus an amount equal to any premium that would have been payable upon such redemption had the Bonds been redeemed. If the Bonds are purchased in lieu of redemption on or prior to the applicable Record Date, the purchase price shall include accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the amount specified in the preceding sentence). If the Bonds are purchased in lieu of redemption after such Record Date, the purchase price shall not include accrued interest.

SECTION 3.03. PAYMENT OF PURCHASE PRICE. If Bonds are to be purchased pursuant to Section 3.01 or Section 3.02, the Trustee shall pay the purchase price of such Bonds but solely

from the following sources in the order of priority indicated, and the Trustee shall not have any obligation to use funds from any other source:

(a) proceeds of the remarketing and sale of such Bonds pursuant to Section 3.04 hereof;

(b) moneys furnished to the Trustee pursuant to Article VIII hereof, such moneys to be applied only to the purchase of Bonds which are deemed to be paid in accordance with Article VIII hereof; and

(c) any other moneys furnished by or on behalf of the Company to the Trustee for purchase of the Bonds; provided, however, that funds for the payment of the purchase price of Bonds which are deemed to be paid in accordance with Article VIII hereof shall be derived only from the sources described in Section 3.03(a) and Section 3.03(b), in such order of priority.

Subject to Section 2.16 hereof, the Registrar shall register new Bonds as directed by the Remarketing Agent and make such Bonds available for delivery on the date of such purchase. Payment of the purchase price of any Bond shall be made in immediately available funds for Bonds in a Flexible, Daily, Weekly or Term Interest Rate Period (subject to Section 2.16(f) hereof) in each case only upon presentation and surrender of such Bond to the Trustee.

If moneys sufficient to pay the purchase price of Bonds to be purchased pursuant to Section 3.01 or Section 3.02 hereof shall be held by the Trustee on the date such Bonds are to be purchased, such Bonds shall be deemed to have been purchased and shall be purchased according to the terms hereof, for all purposes of this Indenture, irrespective of whether or not such Bonds shall have been delivered to the Trustee, and the former Owner of such Bonds shall have no claim under this Indenture or otherwise, for any amount due with respect to such Bonds other than the purchase price thereof.

SECTION 3.04. REMARKETING OF BONDS BY REMARKETING AGENT.

(a) Whenever any Bonds are subject to purchase pursuant to Section 3.01 or Section 3.02 hereof, the Remarketing Agent shall offer for sale and use its best efforts to remarket such Bonds to be so purchased, any such remarketing to be made at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the purchase date. The Company may direct the Remarketing Agent from time to time to cease and to resume sales efforts with respect to some of or all of the Bonds.

(b) If the Remarketing Agent is remarketing the Bonds after the date notice has been given of the redemption of such Bonds pursuant to Section 4.02 or 4.03 hereof (and prior to the redemption date thereof), the Remarketing Agent shall provide to the Trustee the names of the Persons to whom the Bonds are being remarketed so that the Trustee can provide the notice required by Section 3.05(a) hereof.

(c) By 11:30 a.m., New York, New York time, on the date the Trustee receives notice from any Owner in accordance with Section 3.01(a) hereof, and promptly, but in no event later than 11:30 a.m., New York, New York time, on the Business Day following the day on which the Trustee receives notice from any Owner of its demand to have the Trustee purchase Bonds pursuant to Section 3.01(b) or Section 3.01(c) hereof, the Trustee shall give facsimile or telephonic notice, confirmed in writing thereafter, to the Remarketing Agent specifying the principal amount of Bonds which such Owner has demanded to have purchased and the date on which such Bonds are demanded to be purchased.

SECTION 3.05. LIMITS ON REMARKETING. Any Bond purchased pursuant to Sections 3.01 and 3.02 hereof from the date notice is given of redemption pursuant to Sections 4.02 and 4.03 hereof through the date of such redemption shall not be remarketed unless the Person buying such Bonds has been given notice in writing by the Trustee that such Bonds are to be redeemed. Furthermore, in addition to the requirements of the preceding sentence, if the Bonds are subject to redemption pursuant to Section 4.03 hereof, the Person buying such Bonds shall also be given notice in writing by the Trustee that a Determination of Taxability has occurred and that such Bonds are subject to mandatory redemption pursuant to Section 4.03 hereof.

SECTION 3.06. DELIVERY OF BONDS; DELIVERY OF PROCEEDS OF REMARKETING SALE.

(a) DELIVERY OF BONDS.

Bonds purchased pursuant to Section 3.01 or Section 3.02 hereof shall be delivered as follows:

(i) Delivery of Remarketed Bonds. Subject to Section 2.16 hereof, Bonds remarketed by the Remarketing Agent pursuant to Section 3.04 hereof shall not be delivered to any Person until it shall have paid the purchase price therefor.

(ii) Delivery of Bonds Purchased by the Company. Bonds delivered to the Trustee and purchased with moneys furnished by the Company shall at the direction of the Company, be (A) held by the Trustee for the account of the Company, (B) delivered to the Trustee for cancellation or (C) delivered to the Company.

(iii) Delivery of Defeased Bonds. Bonds purchased by the Remarketing Agent with moneys described in Section 3.03(b) hereof shall not be remarketed and shall be delivered to the Trustee for cancellation.

(b) REGISTRATION OF DELIVERED BONDS. Bonds delivered as provided in this Section 3.06 shall be registered in the manner directed by the recipient thereof.

(c) NOTICE OF FAILED REMARKETING. In the event that any Bonds are not remarketed, the Remarketing Agent shall notify the Company by telephone, promptly confirmed in writing by telecopy, and the Trustee in writing (which may be delivered by telecopy) no later than 1:30 p.m., New York, New York time, on any day on which Bonds are delivered or deemed delivered for purchase under this Indenture, of the aggregate principal amount of Bonds not

remarketed on such date and the aggregate principal amount of Bonds remarketed on such date but for which the purchase price has not been paid (which Bonds for purposes of this Indenture shall be considered to not be remarketed), as follows:

(i) Such notice to the Company shall be given to the Principal Office of the Company, as follows:

Avista Corporation
1411 East Mission Avenue
Spokane, Washington 99220
Attention: Treasurer
Telephone: (509) 495-8045
Telecopy: (509) 495-4879

The Company may, by notice given in accordance with Section 13.08 hereof to the Remarketing Agent and the Trustee, designate any further or different addresses to which subsequent such notices may be given.

(ii) Such notice to the Trustee shall be given to the Trustee, as follows:

Chase Manhattan Bank and Trust Company, National Association
101 California Street, Suite 2725
San Francisco, California 94111
Attention: Corporate Trust Administration
Telephone: (415) 954-9518
Telecopy: (415) 693-8850

The Trustee may, by notice given in accordance with Section 13.08 hereof to the Company and the Trustee, designate any further or different addresses to which subsequent such notices may be given.

(d) PROCEEDS OF SALE HELD FOR SELLER OF BONDS. Moneys deposited with the Trustee for the purchase of Bonds pursuant to Section 3.01 and Section 3.02 hereof shall be held uninvested in trust in one or more separate accounts and shall be paid to the former Owners of such Bonds upon presentation thereof. The Trustee shall notify the Company in writing within five days after the date of purchase if the Bonds have not been delivered, and if so directed by the Company, shall give notice by Mail to each Owner whose Bonds are deemed to have been purchased pursuant to Section 3.01 and Section 3.02 hereof stating that interest on such Bonds ceased to accrue on the date of purchase and that moneys representing the purchase price of such Bonds are available against delivery thereof at the Delivery Office of the Trustee. Bonds deemed purchased pursuant to Section 3.01 and Section 3.02 hereof shall cease to accrue interest on the date of purchase. The Trustee shall hold moneys deposited for the purchase of Bonds without liability for interest thereon, for the benefit of the former Owner of the Bond on such date of purchase, who shall thereafter be restricted exclusively to such moneys for any claim of whatever nature on its part under this Indenture or on, or with respect to, such Bond. Any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds within six months

after such date of purchase shall be paid by the Trustee to the Company upon the written direction of the Authorized Company Representative, and thereafter the Trustee shall have no further liability with respect to such moneys and the former Owners shall be entitled to look only to the Company for payment, and then only to the extent of the amount so repaid to the Company, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

SECTION 3.07. NO REMARKETING SALES AFTER CERTAIN EVENTS. Anything in this Indenture to the contrary notwithstanding, there shall be no sales of Bonds pursuant to a remarketing in accordance with Section 3.04 hereof, if (a) there shall have occurred and not have been cured or waived an Event of Default described in Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof of which an authorized officer in the Principal Office of the Remarketing Agent and an authorized officer of the corporate trust department of the Trustee have actual knowledge or (b) the Bonds have been declared to be immediately due and payable pursuant to Section 9.02 hereof and such declaration has not been rescinded pursuant to Section 9.02(d) hereof.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. REDEMPTION OF BONDS GENERALLY.

(a) The Bonds are subject to redemption if and to the extent the Company is entitled or required to make and makes a prepayment pursuant to Article VIII of the Agreement. Except as specifically provided in Section 4.03 hereof, the Trustee shall not give notice of any redemption under Section 4.05 hereof unless the Company has so directed in accordance with Section 8.01 of the Agreement; provided that the Trustee may require prepayment of Loan Payments under Section 4.01 of the Agreement in the case of mandatory redemption.

(b) If the Bonds are to be redeemed in part, they shall only be redeemed in the principal amount of $100,000 or any integral multiple thereof unless such redemption occurs during a Term Interest Rate Period which extends to and includes the Maturity Date, in which case the Bonds may be redeemed in the principal amount of $5,000 or any integral multiple thereof.

SECTION 4.02. REDEMPTION UPON OPTIONAL PREPAYMENT.

(a) The Bonds shall be redeemed in whole or in part, and if in part by lot, at any time at a redemption price equal to 100% of the principal amount thereof (except as otherwise provided in Section 4.02(a)(v) below) plus accrued interest to the redemption date, upon receipt by the Trustee of a written notice from the Company stating that any of the following events has occurred and that the Company therefore intends to exercise its option to prepay the payments due under the Agreement in whole or in part pursuant to Section 8.01 of the Agreement and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments:

(i) the Company shall have determined or concurred in a determination that the continued operation of the Plant is impracticable, uneconomical or undesirable for any reason; or

(ii) all or substantially all of the Plant shall have been condemned or taken by eminent domain;

(iii) the operation of the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body;

(iv) unreasonable burdens or excessive liabilities shall have been imposed upon the Company in respect of all or a part of the Pollution Control Facilities or the Plant including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Agreement, as well as any statute or regulation enacted or promulgated after the date of the Agreement that prevents the Company from deducting interest in respect of the Agreement for federal income tax purposes; or

(v) all or substantially all of the Project shall be transferred or sold to any entity other than an affiliate of the Company; provided, however, that in the case of a redemption under this Section 4.02(a)(v), the redemption price of the Bonds shall be equal to 101% of the principal amount thereof, plus accrued interest to the date of redemption, unless a smaller or no premium would be due upon optional redemption of the Bonds as described in Section 4.02(b) below.

(b) The Bonds shall be subject to redemption in whole, or in part by lot, prior to their maturity, following receipt by the Issuer and the Trustee of a written notice from the Company pursuant to Section 8.01 of the Agreement and upon prepayment of the Loan Payments at the option of the Company, as follows:

(i) While the Bonds bear interest at a PARS Rate, the Bonds shall be subject to such redemption on the date next succeeding the last day of any PARS Rate Period at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(ii) While the Bonds bear interest at a Flexible Interest Rate or Rates, each Bond shall be subject to such redemption on the day next succeeding the last day of each Flexible Segment for such Bond at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(iii) While the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Bonds shall be subject to such redemption on any Business Day at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(iv) While the Bonds bear interest at a Term Interest Rate, the Bonds shall be subject to such redemption (1) on the day next succeeding the last day of each Term Interest Rate Period at a redemption price equal to the principal amount of the Bonds being redeemed plus accrued interest, if any, to the redemption date and (2) either (A) on the redemption dates and at the redemption prices specified by the Company pursuant to Section 4.02(c) hereof or (B) during the redemption periods specified below, in each case in whole or in part, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

LENGTH OF TERM INTEREST RATE PERIOD	REDEMPTION DATES AND PRICES
Greater than or equal to 11 years	At any time on or after the first day of the calendar month following the tenth anniversary of the effective date at 102% declining 1% annually to 100%
Less than 11 years	Not redeemable

(c) With respect to any Term Interest Rate Period, the Company may specify in the notice required by Section 2.06(b) hereof redemption provisions, prices and periods other than those set forth above; provided however, that such notice shall be accompanied by a Favorable Opinion of Bond Counsel with respect to such changes in redemption dates and prices.

SECTION 4.03. REDEMPTION UPON MANDATORY PREPAYMENT. The Bonds shall be subject to mandatory redemption in whole on any date from amounts which are to be prepaid by the Company under Section 8.03 of the Agreement, at a redemption price equal to 100% of the principal amount thereof plus interest accrued, if any, to the redemption date within one hundred eighty (180) days following a Determination of Taxability; provided that if, in the opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

SECTION 4.04. SELECTION OF BONDS FOR REDEMPTION. If less than all of the Bonds are called for redemption the Trustee shall select the Bonds or any given portion thereof to be redeemed, from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall (to the extent practicable) assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that, following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations. The Trustee shall promptly notify the Issuer and the Company in writing of the numbers of the Bonds or portions thereof so selected for redemption.

SECTION 4.05. NOTICE OF REDEMPTION.

(a) The Trustee, for and on behalf of the Issuer, shall give notice of the redemption of any Bond by Mail, postage prepaid, not less than fifteen (15) nor more than sixty (60) days prior to the redemption date, to the Owner of such Bond at the address shown on the registration books of the Registrar on the date such notice is mailed and to any Auction Agent, any Remarketing Agent, any Provider, Moody's, S&P, the Securities Depositories and one or more of the Information Services. Notice of redemption shall also be given to DTC in accordance with the DTC Representation Letter. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address or addresses of the Paying Agent), the source of the funds to be used for such redemption, the principal amount, the CUSIP number (if any) of the maturity and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon, if any, to the redemption date and the premium, if any, thereon (such premium to be specified) and shall require that such Bonds be then surrendered at the address or addresses of the Paying Agent specified in the redemption notice. Notwithstanding the foregoing, failure by the Trustee to give notice pursuant to this Section 4.05 to any one or more of the Information Services or Securities Depositories or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Failure to give any required notice of redemption as to any particular Bond shall not affect the validity of the call for redemption of any Bonds in respect of which no such failure has occurred.

(b) With respect to any notice of optional redemption of Bonds in accordance with Section 4.02 hereof, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of Article VIII hereof, such notice may state that such redemption is conditioned upon the receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys sufficient to pay the principal of, and premium, if any, and interest on, such Bonds to be redeemed. In the event such moneys are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such redemption will not take place.

(c) The Trustee shall also provide the notice with respect to the Bonds to be redeemed as required by Section 3.05(a) hereof.

SECTION 4.06. PARTIAL REDEMPTION OF BONDS. Upon surrender of any Bond redeemed in part only, the Registrar shall exchange the Bond redeemed for a new Bond of like tenor and in an Authorized Denomination without charge to the Owner in the principal amount of the portion of the Bond not redeemed. In the event of any partial redemption of a Bond which is registered in the name of Cede & Co., DTC may elect to make a notation on the Bond certificate which reflects the date and amount of the reduction in the principal amount of said Bond in lieu of surrendering the Bond certificate to the Registrar for exchange. The Issuer, the Company and the

Trustee shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.

SECTION 4.07. NO PARTIAL REDEMPTION AFTER DEFAULT. Anything in this Indenture to the contrary notwithstanding, if there shall have occurred and be continuing an Event of Default (other than an Event of Default described in Section 9.0l(d) hereof) of which an authorized officer of the corporate trust department of the Trustee has actual knowledge, there shall be no redemption of less than all of the Bonds at the time Outstanding.

SECTION 4.08. PAYMENT OF REDEMPTION PRICE. For the redemption of any of the Bonds, the Issuer shall cause to be deposited in the Bond Fund, solely out of the Revenues and any other moneys constituting the Trust Estate, an amount sufficient to pay the principal of, and premium, if any, and interest to become due on, the Bonds called for redemption on the date fixed for such redemption. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Bond Fund or any fund in Article VIII hereof available for and used on such redemption date for payment of the principal of, and premium, if any, and accrued interest on, the Bonds to be redeemed. The Trustee shall apply amounts as and when required available therefor in the Bond Fund to pay principal of, and premium, if any, and interest on, the Bonds.

SECTION 4.09. EFFECT OF REDEMPTION. Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee if such redemption was conditioned thereon, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, without interest accrued on any funds held to pay such redemption price accruing after the date of redemption.

All Bonds fully redeemed pursuant to the provisions of this Article IV shall be canceled upon surrender thereof to the Paying Agent, which shall upon the written request of the Issuer, deliver to the Company a certificate evidencing such cancellation.

ARTICLE V

GENERAL COVENANTS

SECTION 5.01. PAYMENT OF BONDS.

(a) The Issuer covenants that it will promptly pay or cause to be paid the principal of, and premium, if any, and interest on, every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in the Bonds, provided that the principal, premium if any, and interest are payable by the Issuer solely from the Revenues, and nothing in the Bonds or

this Indenture shall be considered as assigning or pledging any other funds or assets of the Issuer other than the Trust Estate.

(b) Each and every covenant made herein by the Issuer is predicated upon the condition that the Issuer shall not in any event be liable for the payment of the principal of, or premium, if any, or interest on the Bonds, or for the payment of the purchase price of the Bonds, or the performance of any pledge, mortgage, obligation or agreement created by or arising under this Indenture or the Bonds from any property other than the Trust Estate; and, further, that neither the Bonds nor any such obligation or agreement of the Issuer shall be construed to constitute an indebtedness or a lending of credit of the Issuer within the meaning of any constitutional or statutory provision whatsoever, or constitute or give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing power.

(c) For the payment of interest on the Bonds, the Issuer shall cause to be deposited in the Interest Account on or prior to each Interest Payment Date, solely out of Revenues and other moneys pledged therefor, an amount sufficient to pay the interest to become due on such Interest Payment Date. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Interest Account available on the Interest Payment Date for the payment of the interest on the Bonds.

(d) For payment of the principal of the Bonds upon redemption, maturity or acceleration of maturity, the Issuer shall cause to be deposited in the Principal Account, on or prior to the redemption date or the maturity date (whether accelerated or not) of the Bonds, solely out of Revenues and other moneys pledged therefor, an amount sufficient to pay the principal of the Bonds. The obligation of the Issuer to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Principal Account available on the redemption date or the maturity date (whether accelerated or not) for the payment of the principal of the Bonds.

SECTION 5.02. PERFORMANCE OF COVENANTS BY ISSUER; AUTHORITY; DUE EXECUTION. The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining thereto. The Issuer represents that it is duly authorized under the Constitution and laws of the State to issue the Bonds and to execute this Indenture, to execute and deliver the Agreement, to assign the Agreement and amounts payable thereunder, and to pledge the amounts hereby pledged in the manner and to the extent herein set forth. The Issuer further represents that all action on its part for the issuance of the Bonds and the execution and delivery of this Indenture has been duly and effectively taken, and that the Bonds in the hands of the Owners thereof are and will be valid and binding limited obligations of the Issuer.

The Issuer shall fully cooperate with the Trustee and with the Owners of the Bonds to the end of fully protecting the rights and security of the Owners of any Bonds.

The Issuer represents that it now has, and covenants that it shall use its best efforts to maintain, complete and lawful authority and privilege to enter into and perform its obligations under this Indenture and the Agreement, and covenants that it will at all times use its best efforts

to maintain its existence or provide for the assumption of its obligations under this Indenture and the Agreement.

Except to the extent otherwise provided in this Indenture, the Issuer shall not enter into any contract or take any action by which the rights of the Trustee or the Owners of the Bonds may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as may be reasonably required to carry out the purposes of this Indenture.

SECTION 5.03. IMMUNITIES AND LIMITATIONS OF RESPONSIBILITY OF ISSUER; REMEDIES. Without limiting the obligation of the Issuer to perform its covenants and obligations hereunder:

(a) The Issuer shall be entitled to the advice of counsel and shall be wholly protected as to action taken or omitted in good faith in reliance on such advice.

(b) The Issuer may rely conclusively on any communication or other document furnished to it hereunder and reasonably believed by it to be genuine.

(c) The Issuer shall not be liable for any action.

(i) taken by it in good faith and reasonably believed by it to be within its discretion or powers hereunder, or

(ii) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers hereunder, or

(iii) taken by it pursuant to any direction or instruction by which it is governed hereunder, or

(iv) omitted to be taken by it by reason of the lack of any direction or instruction required hereby for such action; nor shall it be responsible for the consequences of any error of judgment made by it in good faith.

(d) The Issuer shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any person, except its own officers and employees.

(e) When any payment or consent or other action by it is called for hereby, it may defer such action pending receipt of such evidence (if any) as it may require in support thereof.

(f) The Issuer shall not be required to take any remedial action (other than the giving of notice) unless reasonable indemnity satisfactory to it is furnished for any expense or liability to be incurred thereby.

(g) As provided herein and in the Agreement, the Issuer shall be entitled to reimbursement from the Company for its expenses reasonably incurred or advances

reasonably made, with interest at a rate per annum equal to the rate of interest then in effect and as announced by The Chase Manhattan Bank as its prime lending rate for domestic commercial loans in New York, New York, in the exercise of its rights or the performance of its obligations hereunder, to the extent that it acts without previously obtaining indemnity.

(h) No permissive right or power to act which it may have shall be construed as a requirement to act, and no delay in the exercise of a right or power shall affect its subsequent exercise of that right or power.

SECTION 5.04. DEFENSE OF ISSUER'S RIGHTS. The Issuer agrees that the Trustee may defend the Issuer's rights to the payments and other amounts due under the Agreement, for the benefit of the Owners of the Bonds, against the claims and demands of all persons whomsoever. The Issuer covenants that it will do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming to the Trustee all and singular the rights assigned hereby and the amounts pledged hereby to the payment of the principal of, and premium, if any, and interest on, the Bonds. The Issuer covenants and agrees that, except as herein and in the Agreement provided, it will not sell, convey, assign, pledge, encumber or otherwise dispose of any part of the Trust Estate.

SECTION 5.05. RECORDING AND FILING; FURTHER INSTRUMENTS.

(a) The Issuer and the Trustee shall cooperate with the Company in causing to be filed and recorded all documents, notices and financing statements related to this Indenture and to the Agreement which are necessary, as required by law, in order to perfect the lien of this Indenture in the Trust Estate. Concurrently with the execution and delivery of the Bonds and in accordance with the requirements of Section 5.04 of the Agreement, the Company shall cause to be delivered to the Trustee an opinion of counsel (i) stating that, in the opinion of such counsel either (A) such action has been taken, as set forth therein, with respect to the recording and filing of such documents, notices and financing statements as is necessary to perfect the lien of this Indenture in the Trust Estate, or (B) no such action is necessary to perfect such lien, and (ii) stating the requirements for the filing of continuation statements or other documentation or notices in order to maintain the perfection of the lien of this Indenture in the Trust Estate.

(b) The Issuer shall upon the reasonable request of the Trustee, from time to time execute and deliver such further instruments and take such further action as may be reasonable (and consistent with the Bond Documents) and as may be required to effectuate the purposes of this Indenture or any provisions hereof, provided however, that no such instruments or actions shall pledge the general credit or the full faith of the Issuer.

SECTION 5.06. RIGHTS UNDER AGREEMENT. The Agreement, a duly executed counterpart, of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, including provisions that, subsequent to the issuance of the Bonds and prior to the payment in full or provision for payment thereof in accordance with the provisions hereof, the

Agreement (except as expressly provided therein) may not be effectively amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, as provided in Article XII hereof, and reference is hereby made to the Agreement for a detailed statement of such covenants and obligations of the Company, and the Issuer agrees that the Trustee in its name or (to the extent required by law) in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Agreement, whether or not the Issuer is in default hereunder. The Issuer shall cooperate with the Trustee in enforcing the obligations of the Company to pay or cause to be paid all amounts payable by the Company under the Agreement.

SECTION 5.07. ARBITRAGE AND TAX COVENANTS. The Issuer will not take or fail to take any action that would impair the exclusion of interest on the Bonds from gross income for federal income tax purposes. The Issuer further will not knowingly act or fail to act so as to cause the proceeds of the Bonds, any moneys derived, directly or indirectly, from the use or investment thereof and any other moneys on deposit in any fund or account maintained in respect of the Bonds (whether such moneys were derived from the proceeds of the sale of the Bonds or from other sources) to be used in a manner which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code, or which would otherwise adversely affect the Tax-Exempt status of the Bonds.

SECTION 5.08. NO DISPOSITION OF TRUST ESTATE. Except as permitted by this Indenture, the Issuer shall not sell lease, pledge, assign or otherwise encumber or dispose of its interest in the Trust Estate and will promptly pay (but only from the Revenues) or cause to be discharged, or make adequate provision to discharge, any lien or charge on any part thereof not permitted hereby.

SECTION 5.09. ACCESS TO BOOKS. All books and documents in the possession of the Issuer relating to the Revenues and the Trust Estate shall at all reasonable times be open to inspection by such accountants or other agencies as the Trustee may from time to time designate.

SECTION 5.10. SOURCE OF PAYMENT OF BONDS. The Bonds are not general obligations of the Issuer but are limited obligations payable solely from the Revenues. The Revenues have been pledged and assigned as security for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, and premium, if any, and interest on, the Bonds, except as may be otherwise expressly authorized in this Indenture or the Agreement.

SECTION 5.11. CREDIT FACILITY. The Trustee and the Paying Agent shall take action under the Credit Facility, in accordance with the terms and subject to the coverage thereof, to the extent necessary in order to cause amounts in respect of the principal of and interest on the Bonds to be payable by the Provider pursuant to the Credit Facility to the Owners of the Bonds. The Trustee shall not sell, assign, transfer or surrender the Credit Facility (a) except to a successor Trustee hereunder or (b) except in connection with a Change of Credit Facility.

ARTICLE VI

DEPOSIT OF BOND PROCEEDS; FUND AND ACCOUNTS; REVENUES

SECTION 6.01. CREATION OF BOND FUND AND ACCOUNTS; REBATE FUND.

(a) There is hereby created by the Issuer and ordered established a separate Bond Fund, to be held by the Trustee and to be designated "City of Forsyth, Montana, Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999B Bond Fund" and therein a Principal Account and an Interest Account.

(b) For purposes of complying with the requirements of Section 148 of the Code, the Rebate Fund is hereby established with the Trustee to make arbitrage payments as contemplated by the Tax Certificate. The Trustee shall deposit such amounts into the Rebate Fund and pay such amounts from the Rebate Fund as it shall be directed by an Authorized Company Representative. The Trustee shall have no responsibility for calculating the amount of arbitrage rebate with respect to the Bonds.

SECTION 6.02. DISPOSITION OF BOND PROCEEDS AND CERTAIN OTHER MONEYS. In accordance with the direction contained in Section 3.03 of the Agreement, simultaneously with the initial authentication and delivery of the Bonds: (i) there shall be deposited with the Prior Trustee in the Prior Bond Fund and used for the purpose of the Refunding of the Prior Bonds, an amount equal to $17,000,000, representing the principal proceeds received from the sale of the Bonds, and (ii) there shall be deposited into the Interest Account the accrued interest on the Bonds, if any, from the Issue Date to the date of the initial authentication and delivery of the Bonds.

SECTION 6.03. DEPOSITS INTO THE BOND FUND; USE OF MONEYS IN THE BOND FUND.

(a) The Trustee shall deposit into the Principal Account of the Bond Fund (i) payments made by the Company pursuant to the Agreement in respect of principal of or premium payable on the Bonds, and (ii) any other moneys required by this Indenture or the Agreement to be deposited into the Principal Account of the Bond Fund.

(b) The Trustee shall deposit into the Interest Account of the Bond Fund (i) payments made by the Company pursuant to the Agreement in respect of interest on the Bonds, and (ii) any other moneys required by this Indenture or the Agreement to be deposited into the Interest Account of the Bond Fund.

(c) Except as provided in Sections 6.04, 6.05, 9.10 and 10.04 and Article VIII hereof, moneys in the Principal Account of the Bond Fund shall be used solely for the payment of principal of and premium if any, on the Bonds as the same shall become due and payable at maturity, upon redemption or upon acceleration of maturity.

(d) Except as provided in Sections 6.04, 6.05, 9.10 and 10.04 and Article VIII hereof, moneys in the Interest Account of the Bond Fund shall be used solely to pay interest on the Bonds when due.

SECTION 6.04. BONDS NOT PRESENTED FOR PAYMENT OF PRINCIPAL. In the event any Bonds shall not be presented for payment when the principal thereof becomes due, either at maturity or at the date fixed for redemption thereof or the acceleration of maturity or in the event that any interest thereon is unclaimed, if moneys sufficient to pay such Bonds or interest are held by the Trustee, the Trustee shall segregate and hold such moneys in trust (but shall not invest such moneys), without liability for interest thereon, for the benefit of Owners of such Bonds who shall except as provided in the following paragraph, thereafter be restricted exclusively to such fund or funds for the satisfaction of any claim of whatever nature on their part under this Indenture or relating to said Bonds or interest. Such Bonds which shall not have been so presented for payment shall be deemed paid for any purposes of this Indenture.

Any moneys which the Trustee shall segregate and hold in trust for the payment of the principal of or interest on any Bond and remaining unclaimed for two years after such principal or interest has become due and payable shall be paid by the Trustee to the Company upon request of an Authorized Company Representative. After the payment of such unclaimed moneys to the Company, the Owner of such Bond shall look only to the Company for payment, and then only to the extent of the amount so repaid to the Company, and the Company shall not be liable for any interest thereon and shall not be regarded as a trustee of such money, and all liability of the Issuer and the Trustee with respect to such moneys shall thereupon cease.

Neither the Company nor the Issuer shall have any right, title or interest in or to any moneys held by the Trustee pursuant to this Section. The Trustee shall not be liable to the Issuer or any Owner for interest on funds held by it for the payment and discharge of the principal, interest, or premium on any of the Bonds to any Owner.

SECTION 6.05. PAYMENT TO THE COMPANY. After the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Issuer to the Owners shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Section 6.04 and Article VIII hereof, and all fees, expenses and other amounts payable to the Registrar, the Paying Agent, the Trustee, the Remarketing Agent, the Provider and the Issuer pursuant to any provision of this Indenture or the Credit Facility Agreement shall have been paid, any moneys remaining in the Bond Fund and the Rebate Fund shall be paid to the Company upon request of an Authorized Company Representative, other than any unclaimed moneys held pursuant to Section 6.04. The Trustee may conclusively rely on certificates of the Remarketing Agent and the Provider as to the amount of any fees, expenses and other amounts owing to them.

ARTICLE VII

INVESTMENTS

SECTION 7.01. INVESTMENT OF MONEYS IN FUNDS. Subject to Section 5.07 hereof and the provisions of the Tax Certificate, moneys in the Bond Fund and the Rebate Fund may be invested and reinvested in Investment Securities. Such investments shall be made by the Trustee as specifically directed and designated by the Company in a certificate of, or telephonic advice

promptly confirmed by a certificate of, an Authorized Company Representative. Each such certificate or telephonic advice shall contain a statement that each investment so designated by the Company constitutes an Investment Security and can be made without violation of any provision hereof or of the Agreement or of the Tax Certificate. The Trustee shall be entitled to rely on each such certificate or advice and shall incur no liability for making any such investment so designated or for any loss, fee, tax or other charge incurred in selling such investment or for any action taken pursuant to this Section that causes the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code. No investment instructions shall be given by the Company if the investments to be made pursuant thereto would violate any covenant set forth in Section 5.07 hereof or the provisions of the Agreement or the Tax Certificate. The Trustee may act as principal or agent in the acquisition or disposition of investments. The Trustee shall not be responsible for any loss on any investment made in accordance herewith.

SECTION 7.02. CONVERSION OF INVESTMENT TO CASH. As and when any amounts so invested may be needed for disbursements from the Bond Fund or the Rebate Fund, the Trustee shall cause a sufficient amount of such investments to be sold or otherwise converted into cash to the credit of such fund. As long as no Event of Default shall have occurred and be continuing, the Company shall have the right to designate the investments to be sold and to otherwise direct the Trustee in the sale or conversion to cash of such investments; provided that the Trustee shall be entitled to conclusively assume the absence of any Event of Default unless it has notice thereof within the meaning of Section 10.05 hereof.

SECTION 7.03. CREDIT FOR GAINS AND CHARGE FOR LOSSES. Gains from investments shall be credited to and held in and losses shall be charged to the fund or account from which the investment is made.

ARTICLE VIII

DEFEASANCE

If the Issuer shall pay or cause to be paid to the Owner of any Bond secured hereby the principal of, and premium, if any, and interest due and payable, and thereafter to become due and payable, upon such Bond or any portion of such Bond in an Authorized Denomination thereof, such Bond or portion thereof shall cease to be entitled to any lien, benefit or security under this Indenture.

If the Issuer shall pay or cause to be paid the principal of, and premium if any, and interest due and payable on, all Outstanding Bonds, and thereafter to become due and payable thereon, and shall pay or cause to be paid all other sums payable hereunder by the Issuer, including any necessary and proper fees, compensation and expenses of the Trustee, the Paying Agent, the Registrar, the Provider and the Remarketing Agent, then, and in that case, the right, title and interest of the Trustee in and to the Trust Estate shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over the Trust Estate to the Company and any surplus in the Bond Fund and any balance remaining in any other fund created under this Indenture shall be paid to the Company upon the request of an Authorized Company

Representative, other than any unclaimed moneys held pursuant to Sections 3.06(d) and 6.04. The Trustee may conclusively rely on certificates of the Remarketing Agent and the Provider as to the amount of any fees, expenses and other amounts owing to them. Notwithstanding anything herein to the contrary, in the event that the principal of and interest due on any Bonds shall be paid by the Provider pursuant to the Credit Facility, such Bonds shall remain Outstanding for all purposes, shall not be defeased or otherwise satisfied and shall not be considered paid by the Issuer, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to such Owners shall continue to exist and shall run to the benefit of the Provider and the Provider shall be subrogated to the rights of such Owners.

All or any portions of Bonds (in Authorized Denominations) shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of this Article VIII and for all purposes of this Indenture when:

(a) in the event said Bonds or portions thereof have been selected for redemption in accordance with Section 4.04 hereof, the Trustee shall have given, or the Company shall have given to the Trustee in form satisfactory to it irrevocable instructions to give, on a date in accordance with the provisions of Section 4.05 hereof, notice of redemption of such Bonds or portions thereof;

(b) there shall have been deposited with the Trustee moneys in an amount sufficient (without relying on any investment income) to pay when due the principal of, and premium, if any, and interest due and to become due (which amount of interest to become due shall be calculated at the Maximum Interest Rate unless the interest rate borne by all of such Bonds is not subject to adjustment prior to the maturity or redemption thereof, in which case the amount of interest shall be calculated at the rate borne by such Bonds) on said Bonds or portions thereof on and prior to the redemption date or maturity date thereof, as the case may be;

(c) in the event said Bonds or portions thereof do not mature and are not to be redeemed within the next succeeding 60 days, the Issuer at the direction of the Company shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable in the same manner as a notice of redemption is given pursuant to Section 4.05 hereof, a notice to the Owners of said Bonds or portions thereof and to the Provider that the deposit required by clause (b) above has been made with the Trustee and that said Bonds or portions thereof are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of, and premium, if any, and interest on, said Bonds or portions thereof; and

(d) the Trustee shall have received a Favorable Opinion of Bond Counsel with respect to such deposit.

In the event the requirements of the next succeeding paragraph can be satisfied, the preceding paragraph shall not apply, and the following two paragraphs shall be applicable.

Any Bond shall be deemed to be paid within the meaning of this Article VIII and for all purposes of this Indenture when:

(a) payment of the principal of and premium if any, on such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or acceleration or upon redemption as provided herein) either (A) shall have been made or caused to be made in accordance with the terms thereof or (B) shall have been provided for by irrevocably depositing with the Trustee in trust and irrevocably set aside exclusively for such payment (1) moneys sufficient to make such payment, and/or (2) Government Obligations maturing as to principal and interest in such amount and at such time as will insure, without reinvestment, the availability of sufficient moneys to make such payment;

(b) all necessary and proper fees, compensation and expenses of the Issuer, the Trustee, the Remarketing Agent, the Provider, the Paying Agent and the Registrar pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee, the Trustee being able to conclusively rely on certificates of the Remarketing Agent and the Provider as to the amount of any fees, compensation and expenses owing to them; and

(c) an opinion of an independent public accountant of nationally recognized standing, selected by the Company, to the effect that such moneys and/or Government Obligations will insure, without reinvestment, the availability of sufficient moneys to make such payment, and a Favorable Opinion of Bond Counsel with respect to such deposit shall have been delivered to the Trustee. At such times as a Bond shall be deemed to be paid hereunder, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of this Indenture, except for the purposes of registration and exchange of Bonds and of any such payment from such moneys or Government Obligations.

The foregoing provisions of this paragraph shall apply only if (x) such Bond is to mature or be called for redemption prior to the next date upon which such Bond is subject to purchase pursuant to Section 3.01 and 3.02 hereof; and (y) the Company has waived, to the satisfaction of the Trustee, its right to convert the interest rate borne by such Bond.

No deposit under clause (a)(B) of the preceding paragraph shall be deemed a payment of such Bonds as aforesaid until: (i) proper notice of redemption of such Bonds shall have been previously given in accordance with Section 4.05 hereof, or in the event said Bonds are not to be redeemed within the next succeeding 60 days, until the Company shall have given the Trustee on behalf of the Issuer, in form satisfactory to the Trustee, irrevocable instructions to notify, as soon as practicable, the Owners of the Bonds and the Provider in accordance with Section 4.05 hereof, that the deposit required by clause (a)(B) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and the applicable redemption premium, if any, on said Bonds, plus interest thereon to the due date thereof; or (ii) the maturity of such Bonds.

Moneys deposited with the Trustee pursuant to this Article VIII shall not be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of, premium, if any, and interest on said Bonds or portions thereof, or for the payment of the purchase price of Bonds in accordance with Section 3.03 hereof; provided that such moneys, if not then needed for such purpose, shall to the extent practicable, be invested and reinvested in Government Obligations maturing on or prior to the earlier of (i) the date moneys may be required for the purchase of Bonds pursuant to Section 3.03 hereof or (ii) the Interest Payment Date next succeeding the date of investment or reinvestment, and interest earned from such investments shall be paid over to the Company, as received by the Trustee, free and clear of any trust, lien or pledge. If payment of less than all the Bonds is to be provided for in the manner and with the effect provided in this Article VIII, the Trustee shall select such Bonds or portion of such Bonds in the manner specified by Section 4.04 hereof for selection for redemption of less than all Bonds in the principal amount, not less than $100,000 or, to the extent permitted by Section 4.01(b) hereof, $5,000, designated to the Trustee by the Company.

Notwithstanding that all or any portion of the Bonds are deemed to be paid within the meaning of this Article VIII, the provisions of this Indenture relating to (i) the registration and exchange of Bonds, (ii) the delivery of Bonds to the Trustee for purchase and the related obligations of the Trustee with respect thereto, (iii) replacement of mutilated, lost, destroyed or stolen Bonds, (iv) payment of the Bonds from the moneys deposited as described in this Article and (v) payment, compensation, reimbursement and indemnification of the Trustee, shall remain in full force and effect with respect to all Bonds until the Maturity Date or the last date fixed for redemption of all Bonds prior to maturity and, in the case of clause (v), until payment, compensation, reimbursement or indemnification, as the case may be, of the Trustee.

ARTICLE IX

DEFAULTS AND REMEDIES

SECTION 9.01. EVENTS OF DEFAULT. Each of the following events shall constitute and is referred to in this Indenture as an "Event of Default":

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity, upon redemption or otherwise;

(b) a failure to pay an installment of interest on any of the Bonds for a period of (i) 30 days after the date upon which such interest has become due and payable if the Bonds bear interest at a Term Interest Rate, or (ii) two Business Days after the date upon which such interest has become due and payable if the Bonds bear interest at a PARS Rate, a Flexible Interest Rate, a Daily Interest Rate or a Weekly Interest Rate;

(c) a failure to pay an amount due in respect of the purchase price of Bonds pursuant to Section 3.01 and Section 3.02 hereof after such payment has become due and payable;

(d) a failure by the Issuer to observe and perform any covenant, condition, agreement or provision (other than as specified in Section 9.01(a), Section 9.01(b) and Section 9.01(c)) contained in the Bonds or in this Indenture on the part of the Issuer to be observed or performed, which failure shall continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Issuer and the Company by the Trustee by registered or certified mail which may give such notice in its discretion and shall give such notice at the written request of the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and the Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided however, that the Trustee, or the Trustee and the Owners of such principal amount of Bonds, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Issuer or the Company on behalf of the Issuer within such period and is being diligently pursued; or

(e) an "Event of Default" under the Agreement.

If on the date on which payment of principal of, interest on or other amount in any respect of the Bonds is due, sufficient moneys are not available to make such payment, the Trustee shall promptly give telephonic notice of such insufficiency to the Company given to the person at the telephone number provided for in Section 3.06(c) hereof.

SECTION 9.02. ACCELERATION; OTHER REMEDIES.

(a) If an Event of Default described in Section 9.01(a), Section 9.01(b) or Section 9.01(c) or an Event of Default described in Section 9.01(e) hereof resulting from an "Event of Default" under Section 7.01(a) or Section 7.01(c) of the Agreement (of which the Trustee shall be deemed to have notice pursuant to the provisions of Section 10.05 hereof) has occurred and has not been cured or waived, then the Trustee may, with the consent of the Provider (unless a Provider Default shall have occurred and be continuing) or upon the written direction of the Provider (unless a Provider Default shall have occurred and be continuing) or upon the written request of the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding and with the consent of the Provider (unless a Provider Default shall have occurred and be continuing), the Trustee shall, by written notice by registered or certified mail to the Issuer, the Company and the Provider, declare the Bonds to be immediately due and payable, whereupon the Bonds shall without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and the Trustee shall give notice thereof by Mail to all Owners of Outstanding Bonds.

(b) The provisions of Section 9.02(a) are subject further to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Issuer shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds, any unpaid purchase price and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration

(with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum then borne by the Bonds) and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee and all Events of Default (other than nonpayment of the principal of Bonds which shall have become due by said declaration) shall have been remedied, then, in every such case, such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee shall promptly give written notice of such waiver, rescission or annulment to the Issuer and the Company, and shall give notice thereof by Mail to all Owners of Outstanding Bonds; provided, however, that no such waiver, rescission and annulment shall extend to or affect any other Event of Default or subsequent Event of Default or impair any right, power or remedy consequent thereon.

(c) Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion, with the consent of the Provider (unless a Provider Default shall have occurred and be continuing) may, and upon the written request of the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction (except against negligence or willful misconduct) shall in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners under, and require the Issuer, the Company or the Provider to carry out any agreements with or for the benefit of the Owners of Bonds and to perform its or their duties under, the Act, the Agreement, this Indenture, the Credit Facility and the Credit Facility Agreement, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Agreement or this Indenture, as the case may be;

(ii) bring suit upon the Bonds;

(iii) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Owners of Bonds; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of Bonds.

Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Provider (unless a Provider Default shall have occurred and be continuing) shall be entitled (subject to Section 9.04) to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds or the Trustee for the benefit of such Owners under this Indenture and shall be entitled to consent to any request or direction of the Owners as a condition to the effectiveness of any such request or direction.

(d) The Trustee shall waive any Event of Default hereunder and its consequences and rescind any declaration of acceleration of principal upon (i) the written direction of the Provider (unless a Provider Default shall have occurred and be continuing) and (ii) the written request of the Owners of (A) more than a majority in principal amount of all Outstanding Bonds in respect

of which default in the payment of principal or purchase price of or interest on the Bonds exists or (B) more than a majority in principal amount of all Outstanding Bonds in the case of any other Event of Default; provided, however, that (x) there shall not be waived any Event of Default specified in Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof unless prior to such waiver or rescission the Issuer shall have caused to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal and purchase price of any and all Bonds which shall have become due otherwise than by reason of such declaration of acceleration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum then borne by the Bonds) and (y) no Event of Default shall be waived unless (in addition to the applicable conditions as aforesaid) there shall have been deposited with the Trustee such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee. In case of any waiver or rescission described above, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or concluded or determined adversely, then and in every such case the Issuer, the Trustee and the Owners of Bonds shall be restored to their former positions and rights hereunder, respectively; provided further that no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

SECTION 9.03. RESTORATION TO FORMER POSITION. In the event that any proceeding taken by the Trustee to enforce any right under this Indenture shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Issuer, the Trustee and the Owners of Bonds shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

SECTION 9.04. OWNERS' RIGHT TO DIRECT PROCEEDINGS. Anything in this Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Provider (provided that a Provider Default shall not have occurred and be continuing) or the Owners of a majority in principal amount of the Bonds then Outstanding, with the consent of the Provider (if no Provider Default shall have occurred and be continuing), shall have the right, by an instrument in writing executed and delivered to the Trustee and upon furnishing to the Trustee indemnity satisfactory to it (except against negligence or willful misconduct), to direct the time, method and place of conducting all remedial proceedings available to the Trustee under this Indenture or exercising any trust or power conferred on the Trustee by this Indenture, provided that such direction shall not be other than in accordance with the provisions of law, the Agreement and this Indenture and shall not result in any personal liability of the Trustee.

SECTION 9.05. LIMITATION ON OWNERS' RIGHT TO INSTITUTE PROCEEDINGS. No Owner shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy hereunder or in the Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as herein above provided and unless the Owners of not less than 33-1/3% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee so to do after the right to institute said suit, action or proceeding under Section 9.02 hereof shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to

it against the costs, expenses and liabilities to be incurred therein or thereby (except against negligence or willful misconduct), and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of said suit, action or proceeding, it being understood and intended that no one or more of the Owners shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder or under the Bonds, except in the manner herein provided, and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners.

SECTION 9.06. NO IMPAIRMENT OF RIGHT TO ENFORCE PAYMENT. Notwithstanding any other provision in this Indenture, the right of any Owner to receive payment of the principal or purchase price of, and premium, if any, and interest on, its Bond, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner.

SECTION 9.07. PROCEEDINGS BY TRUSTEE WITHOUT POSSESSION OF BONDS. All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Owners, subject to the provisions of this Indenture.

SECTION 9.08. NO REMEDY EXCLUSIVE. Except as provided in Section 2.13, no remedy herein conferred upon or reserved to the Trustee or to the Owners is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or under the Agreement, or now or hereafter existing at law or in equity or by statute; provided, however, that any conditions set forth herein to the taking of any remedy to enforce the provisions of this Indenture, the Bonds or the Agreement shall also be conditions to seeking any remedies under any of the foregoing pursuant to this Section 9.08.

SECTION 9.09. NO WAIVER OF REMEDIES. No delay or omission of the Trustee or of any Owner to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default, or an acquiescence therein; and every power and remedy given by this Article IX to the Trustee and to the Owners, respectively, may be exercised from time to time and as often as may be deemed expedient.

SECTION 9.10. APPLICATION OF MONEYS. Any moneys received by the Trustee, by any receiver or by any Owner pursuant to any right given or action taken under the provisions of this Article IX, after payment of the costs and expenses, liabilities and advances incurred or made by the Trustee or its agents or counsel (provided that moneys held for Bonds not presented for

payment or deemed paid pursuant to Section 3.06(d), Section 6.04 or Article VIII hereof shall not be used for purposes other than payment of such Bonds), shall be deposited in the Bond Fund and all moneys so deposited in the Bond Fund during the continuance of an Event of Default (other than moneys for the payment of Bonds which had matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default) shall be applied as follows:

(a) Unless the principal of all the Bonds shall have been declared due and payable, all such moneys shall be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on each Bond, with interest on overdue installments of interest, if lawful at the rate per annum then borne by such Bond, in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of this Indenture) with interest on each Bond at its rate from the respective dates upon which it became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal as aforesaid, without preference or priority of principal over interest or interest over principal or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article then, subject to the provisions of subparagraph (b) of this Section 9.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of subparagraph (a) of this Section 9.10.

Whenever moneys are to be applied pursuant to the provisions of this Section 9.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the Bond Payment Date upon which such application is to commence and upon such Bond Payment Date interest on the amounts of principal and interest to be paid on such Bond Payment Date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such Bond Payment Date by Mail to the Provider and all Owners of Outstanding Bonds and shall not be required to make payment to

any Owner until such Bond shall be presented to the Trustee for appropriate endorsement or cancellation if fully paid.

SECTION 9.11. SEVERABILITY OF REMEDIES. It is the purpose and intention of this Article IX to provide rights and remedies to the Trustee and the Owners which may be lawfully granted under the provisions of the Act, but should any right or remedy herein granted be held to be unlawful the Trustee and the Owners shall be entitled, as above set forth, to every other right and remedy provided in this Indenture and by law.

ARTICLE X

TRUSTEE; PAYING AGENT; REGISTRAR; REMARKETING AGENT

SECTION 10.01. ACCEPTANCE OF TRUSTS. The Issuer initially appoints Chase Manhattan Bank and Trust Company, National Association, as Trustee and Paying Agent. The Trustee hereby accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article X, to all of which the Issuer agrees and the respective Owners agree by their acceptance of delivery of any of the Bonds. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default, undertakes to perform such duties and only such duties as are specifically set forth herein and no implied covenant shall be read into this Indenture.

SECTION 10.02. NO RESPONSIBILITIES FOR RECITALS. The recitals, statements and representations contained in this Indenture or in the Bonds, save only the Trustee's authentication upon the Bonds, shall not be taken and construed as made by or on the part of the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof or for the validity, sufficiency or priority of this Indenture or the Agreement, or the perfection or the maintenance of the perfection of any security interest granted hereby.

SECTION 10.03. LIMITATIONS ON LIABILITY. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, receivers or employees, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder and shall not be answerable for the conduct of any such attorney, agent, receiver or employee if appointed by the Trustee with reasonable care, and the advice of any such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted hereunder in good faith and reliance thereon. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with the trusts created hereby, except only for its own negligence or willful misconduct.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Provider or the Owners of a majority in aggregate principal amount of the Bonds Outstanding relating to the time, method and place of

conducting any proceeding or any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

The permissive rights of the Trustee to do things enumerated in this Trust Indenture shall not be construed as a duty unless so specified herein.

The Trustee shall not be liable for any error of judgment made in good faith by an officer, director or employee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Provider or the Owners pursuant to the provisions of this Trust Indenture unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

Whether or not expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of the Trustee shall be subject to the provisions of this Article X and shall extend to the Registrar, Paying Agents, and employees and agents of the Trustee.

SECTION 10.04. COMPENSATION, EXPENSES AND ADVANCES. The Trustee, the Paying Agent and the Registrar shall be entitled to such compensation as shall be agreed in writing with the Company for their services rendered hereunder (not limited by any provision of law in regard to the compensation of the trustee of an express trust) and to reimbursement for their actual out-of-pocket expenses (including reasonable counsel fees and expenses) reasonably incurred in connection therewith except as a result of their negligence or willful misconduct. If the Issuer shall fail to perform any of the covenants or agreements contained in this Indenture, the Trustee may, in its uncontrolled discretion and without notice to the Owners, at any time and from time to time, make advances to effect performance of the same on behalf of the Issuer, but the Trustee shall be under no obligation so to do; and any and all such advances shall bear interest at a rate per annum equal to the lesser of the Maximum Interest Rate and the rate of interest then in effect and as announced by The Chase Manhattan Bank as its prime lending rate for domestic commercial loans in New York, New York; but no such advance shall operate to relieve the Issuer from any Event of Default. In no event shall the Trustee be liable for any claims resulting from any decision on its part not to advance funds as permitted in the immediately preceding sentence. In the Agreement, the Company has agreed that it will pay to the Trustee, the Paying Agent, and the Registrar compensation and reimbursement of expenses and advances and certain indemnitees, but the Company may, without creating an Event of Default, contest in good faith the reasonableness of any such expenses and advances. If the Company shall have failed to make any payment to the Trustee, the Paying Agent or the Registrar under the Agreement, then each of the Trustee, the Paying Agent and the Registrar shall have, in addition to any other rights hereunder, a claim, prior to the claim of the Owners, for the payment of their compensation and

indemnitees and the reimbursement of their expenses and any advances made by them, as provided in this Section 10.04, upon the moneys and obligations in the Bond Fund, except for moneys or obligations deposited with or paid to the Trustee for the redemption or payment of Bonds which are deemed to have been paid in accordance with Article VIII hereof, or funds held pursuant to Section 6.04 hereof.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 7.01(c) of the Agreement, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section 10.04 shall survive the termination of this Indenture.

SECTION 10.05. NOTICE OF EVENTS OF DEFAULT AND DETERMINATION OF TAXABILITY. The Trustee shall not be required to take notice, or be deemed to have notice of any default or Event of Default, other than an Event of Default under Section 9.01(a), Section 9.01(b) or Section 9.01(c) hereof or any Provider Default, unless the Trustee shall have been specifically notified in writing at the Principal Office of the Trustee, Attention: Corporate Trust Administration, of such Event of Default or Provider Default by the Owners of at least 25% in principal amount of the Bonds then Outstanding, the Issuer, the Company, the Provider or the Remarketing Agent. The Trustee may, however, at any time, in its discretion, require of the Issuer full information and cooperation as to the performance of any of the covenants, conditions and agreements contained herein. Such inquiry shall not for the purposes of this Section 10.05 constitute notice of any Event of Default. The Issuer shall not be required to take notice, or be deemed to have notice, of any Event of Default, other than an Event of Default of which it shall have actual knowledge. If an Event of Default occurs after the Trustee has notice of the same as provided in this Section 10.05, or if a Determination of Taxability occurs of which the Trustee has actual knowledge, then the Trustee shall give notice thereof by Mail to the Provider, the Remarketing Agent and the Owners of Outstanding Bonds.

SECTION 10.06. ACTION BY TRUSTEE. Except as provided in Section 3.03, Section 9.02 and Section 9.04 hereof and except for the payment of principal of, and premium, if any, and interest on, the Bonds when due from moneys held by the Trustee as part of the Trust Estate, the Trustee shall be under no obligation to take any action in respect of any Event of Default or toward the execution or enforcement of any of the trusts hereby created, or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by the Owners of at least 33-1/3% in principal amount of the Bonds then Outstanding and, if in its opinion such action may tend to involve it in expense or liability, unless furnished, from time to time as often as it may require, with security and indemnity satisfactory to it (except against negligence or willful misconduct); but the foregoing provisions are intended only for the protection of the Trustee, and shall not affect any discretion or power given by any provisions of this Indenture to the Trustee to take action in respect of any Event of Default without such notice or request from the Owners, or without such security or indemnity.

Notwithstanding any other provision of this Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of this Indenture, the Trustee shall consider the effect on the Owners as if there were no Credit Facility.

SECTION 10.07. GOOD-FAITH RELIANCE. The Trustee, the Registrar, the Provider and the Remarketing Agent, shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, telex or facsimile transmission, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board, body or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture or the Agreement, or upon the written opinion of any attorney, engineer, accountant or other expert believed, without independent investigation, by the Trustee, the Registrar or the Remarketing Agent, as the case may be, to be qualified in relation to the subject matter. The Trustee, the Registrar, the Provider and the Remarketing Agent, shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements; provided, however, that the Trustee may, in its discretion, make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation it shall be entitled to examine the books, records and premises of the Company personally or by agent or attorney. Neither the Trustee, the Registrar, the Provider nor the Remarketing Agent shall be bound to recognize any person as an Owner or to take any action at such person's request unless satisfactory evidence of the ownership of such Bond shall be furnished to such entity.

Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of negligence or bad faith on its part, request and conclusively rely upon a certificate of an Authorized Company Representative or an Executive Officer.

The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds or the taking of any other action whatsoever within the purview of this Indenture or the Agreement, any showings, certificates, opinions or other information, or corporate action or evidence thereof, in addition to those by the terms hereof or thereof required as a condition of such action which are reasonably deemed desirable by the Trustee for the purpose of establishing the right of the Issuer or the Company to request the taking of such action by the Trustee.

SECTION 10.08. DEALINGS IN BONDS; ALLOWANCE OF INTEREST. The Trustee, the Registrar, the Provider, or the Remarketing Agent, in its individual capacity, may in good faith buy, sell own,

hold and deal in any of the Bonds issued hereunder and may join in any action which any Owner may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, the Registrar, the Provider, or the Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the Company, and may act as depositary, trustee or agent for any committee or body of Owners secured hereby or other obligations of the Issuer or the Company as freely as if it did not act in any capacity hereunder.

All moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received hereunder except such as it may agree with the Company to pay thereon.

SECTION 10.09. SEVERAL CAPACITIES. Anything in this Indenture to the contrary notwithstanding, the same entity may serve hereunder as the Trustee, the Registrar, the Paying Agent and the Remarketing Agent and in any other combination of such capacities, to the extent permitted by law. For purposes of this Trust Indenture, the Remarketing Agent shall not be deemed to be an agent or representative of the Trustee.

SECTION 10.10. RESIGNATION OF TRUSTEE. The Trustee may resign and be discharged of the trusts created by this Indenture by executing any instrument in writing resigning such trust and specifying the date when such resignation shall take effect, and filing the same with the Issuer, the Company, the Registrar, the Provider, and the Remarketing Agent not less than 45 days before the date specified in such instrument when such resignation shall take effect, and by giving notice of such resignation by Mail not less than three weeks prior to such resignation date, to all Owners of Bonds. Such resignation shall take effect on the day specified in such instrument and notice, unless previously a successor Trustee shall have been appointed as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment of such successor Trustee, but in no event shall a resignation take effect earlier than the date on which a successor Trustee has been appointed and has accepted its appointment.

SECTION 10.11. REMOVAL OF TRUSTEE.

(a) The Trustee may be removed at any time by filing with the Trustee so removed and with the Issuer, the Company, the Registrar, the Provider, and the Remarketing Agent, an instrument or instruments in writing executed by (i) the Provider, if no Provider Default or Event of Default shall have occurred and be continuing and if the Trustee has acted or failed to act hereunder in a manner that is contrary to the standard of care of the Trustee provided for herein, or (ii) the Owners of not less than a majority in principal amount of the Bonds then Outstanding and, if no Provider Default shall have occurred and be continuing, the Provider.

(b) The Issuer may, and, so long as no default or Event of Default is then existing under Section 7.01 of the Agreement or Section 9.01(a), (b) or (c) of this Indenture, at the request of the Company will, remove the Trustee if (i) the Trustee fails to comply with Section 10.13(a), (b), (c) or (e) hereof, (ii) the Trustee is adjudged a bankrupt or an insolvent, (iii) a receiver or other

public officer takes charge of the Trustee or its property or (iv) the Trustee otherwise becomes incapable of acting.

(c) In no event shall a removal take effect earlier than the date on which a successor Trustee has been appointed and has accepted its appointment.

SECTION 10.12. APPOINTMENT OF SUCCESSOR TRUSTEE. In case at any time the Trustee shall be removed, or be dissolved, or if its property or affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, then a vacancy shall forthwith and ipso facto exist in the office of Trustee and a successor may be appointed, and in case at any time the Trustee shall resign, then a successor may be appointed by filing with the Issuer, the Company, the Registrar and the Remarketing Agent an instrument in writing executed by (i) the Provider, if no Provider Default shall have occurred and be continuing, or (ii) the Owners of not less than a majority in principal amount of the Bonds then Outstanding and, if no Provider Default shall have occurred and be continuing, the Provider, or (iii) the Company if no default or Event of Default is then existing under Section 7.01 of the Agreement or Section 9.01(a), (b) or (c) of this Indenture. Copies of such instrument shall be promptly delivered by the Issuer to the predecessor Trustee and to the Trustee so appointed.

Until a successor Trustee shall be appointed by the Provider, the Owners or by the Company as herein authorized, the Issuer, by an instrument authorized by the governing body of the Issuer, shall appoint a successor Trustee acceptable to the Company and the Provider. After any appointment by the Issuer, it shall cause notice of such appointment to be given to the Remarketing Agent and the Registrar and to be given by Mail to all Owners of Bonds. Any new Trustee so appointed by the Issuer shall immediately and without farther act be superseded by a Trustee appointed by the Owners in the manner above provided.

SECTION 10.13. QUALIFICATIONS OF SUCCESSOR TRUSTEE. Every successor Trustee (a) shall be a national or state bank or trust company that is authorized by law to perform all the duties imposed upon it by this Indenture, (b) shall have (or, in the case of a corporation included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least $50,000,000 as set forth in its (or its related bank holding company's) most recent published annual report of condition, (c) shall be permitted under the Act to perform the duties of Trustee, (d) shall be acceptable to the Provider, and (e) so long as the Bonds are subject to optional or mandatory purchase pursuant to the provisions of this Indenture and no book-entry system for the Bonds is in effect pursuant to Section 2.16 hereof, shall have an office or agency located in New York, New York, if there can be located, with reasonable effort, such an institution willing and able to accept the trust on reasonable and customary terms.

SECTION 10.14. JUDICIAL APPOINTMENT OF SUCCESSOR TRUSTEE. In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article X prior to the date specified in the notice of resignation as the date when such resignation is to take effect, the resigning Trustee may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article X within six months after a vacancy shall have occurred in the office of Trustee, any Owner may apply to any

court of competent Jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

SECTION 10.15. ACCEPTANCE OF TRUSTS BY SUCCESSOR TRUSTEE. Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer an instrument accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become duly vested with all the estates, property rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder, with like effect as if originally named Trustee herein. Upon request of such Trustee, such predecessor Trustee and the Issuer shall execute and deliver an instrument transferring to such successor Trustee all the estates, property, rights, powers and trusts hereunder of such predecessor Trustee and, subject to the provisions of Section 10.04 hereof, such predecessor Trustee shall pay over to the successor Trustee all moneys and other assets at the time held by it hereunder.

SECTION 10.16. SUCCESSOR BY MERGER OR CONSOLIDATION. Any corporation into which any Trustee hereunder may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any Trustee hereunder shall be a party, or to which all or substantially all of its corporate trust business shall be transferred, shall be the successor Trustee under this Indenture, without the execution or filing of any paper or any further act on the part of the parties hereto, anything in this Indenture to the contrary notwithstanding, provided, however, if such successor corporation is not a trust company or state or national bank that has trust powers, the Trustee shall resign from the trusts hereby created prior to such merger, transfer or consolidation or the successor corporation shall resign from such trusts as soon as practicable after such merger, transfer or consolidation.

SECTION 10.17. STANDARD OF CARE. Notwithstanding any other provisions of this Article X, the Trustee shall, during the existence and prior to the curing of an Event of Default of which the Trustee has notice as provided in Section 10.05 hereof, exercise such of the rights and powers vested in it by this Indenture and use the same degree of skill and care in their exercise as a prudent person would use and exercise under the circumstances in the conduct of his own affairs.

SECTION 10.18. INTERVENTION IN LITIGATION OF THE ISSUER. In any judicial proceeding to which the Issuer is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners of the Bonds, the Trustee may and shall upon receipt of indemnity satisfactory to it (except against negligence or willful misconduct) at the written request of the Owners of at least 25% in principal amount of the Bonds then Outstanding and if permitted by the court having jurisdiction in the premises, intervene in such judicial proceeding.

SECTION 10.19. REMARKETING AGENT. The Company has covenanted in the Agreement that at all times while any of the Bonds are Outstanding and are subject to optional or mandatory purchase pursuant to the provisions hereof there shall be a Remarketing Agent for the Bonds appointed and acting pursuant to the provisions of this Indenture. The Remarketing Agent shall designate its Principal Office to the Trustee, the Company, the Registrar and the Issuer.

The Issuer shall cooperate with the Trustee, the Registrar and the Company to cause the necessary arrangements to be made and to be thereafter continued whereby funds from the sources specified herein and in the Agreement will be made available for the purchase of Bonds presented at the Delivery Office of the Trustee and whereby Bonds, executed by the Issuer and authenticated by the Trustee, shall be made available to the Remarketing Agent to the extent necessary for delivery pursuant to Section 3.06 hereof.

SECTION 10.20. QUALIFICATIONS OF REMARKETING AGENT. The Remarketing Agent shall have a capitalization of at least $50,000,000 and be authorized by law to perform all the duties contemplated by this Indenture to be performed by the Remarketing Agent and agrees to take all actions required of it under the DTC Representation Letter while a book-entry system is in effect for the Bonds. The Remarketing Agent may at any time resign and be discharged of the duties and obligations contemplated by this Indenture by giving at least 30 days' notice to the Issuer, the Company, the Registrar and the Trustee. The Remarketing Agent may be removed at any time, at the direction of the Company, by an instrument, signed by the Authorized Company Representative, filed with the Issuer, the Remarketing Agent, the Registrar and the Trustee at least 30 days prior to the effective date of such removal. Upon the resignation or removal of the Remarketing Agent, the Company may appoint a new Remarketing Agent.

In the event of the resignation or removal of the Remarketing Agent, the Remarketing Agent shall pay over, assign and deliver any moneys held by it in such capacity to its successor or, if there be no successor, to the Trustee.

In the event that the Company shall fail to appoint a Remarketing Agent hereunder, or in the event that the Remarketing Agent shall resign or be removed, or be dissolved, or if the property or affairs of the Remarketing Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Company shall not have appointed a successor Remarketing Agent, the Trustee, notwithstanding the provisions of the first paragraph of this Section 10.20, shall ipso facto be deemed to be the Remarketing Agent for all purposes of this Indenture until the appointment by the Company of the Remarketing Agent or successor Remarketing Agent, as the case may be; provided, however, that the Trustee, in its capacity as Remarketing Agent, shall not be required to sell Bonds or determine the interest rate on the Bonds pursuant to Article II hereof on the basis of an examination of Tax-Exempt obligations comparable to the Bonds but shall determine any applicable alternate interest rate if so required by the applicable provisions of Article II hereof.

SECTION 10.21. REGISTRAR. Pursuant to the provisions hereof the Trustee is the initial Registrar for the Bonds. By its execution of this Indenture, the Trustee signifies its acceptance of the duties of Registrar hereunder. Any successor Registrar shall designate to the Issuer, the Company and the Remarketing Agent its office where the registration books shall be kept and signify its acceptance of the duties imposed upon it hereunder by a written instrument of acceptance delivered to the Issuer and the Trustee under which such Registrar will agree, particularly, to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, the Trustee, the Company, the Provider and the Remarketing Agent at all reasonable times. So long as the Bonds are subject to optional or mandatory purchase pursuant to the provisions of this Indenture and no

book-entry system for the Bonds is in effect pursuant to Section 2.16 hereof, the Registrar shall maintain in New York, New York, an office or agency for the exchange, registration and registration of transfer of the Bonds.

The Issuer shall cooperate with the Trustee, the Remarketing Agent and the Company to cause the necessary arrangements to be made and to be thereafter continued whereby Bonds, executed by the Issuer and authenticated by the Registrar, shall be made available for exchange, registration and registration of transfer at the Principal Office of the Registrar. The Issuer shall cooperate with the Trustee, the Registrar, the Company and the Remarketing Agent to cause the necessary arrangements to be made and thereafter continued whereby the Trustee and the Remarketing Agent shall be furnished such records and other information, at such times, as shall be required to enable the Trustee and the Remarketing Agent to perform the duties and obligations imposed upon them hereunder.

SECTION 10.22. QUALIFICATIONS OF REGISTRAR; RESIGNATION; REMOVAL. The Registrar shall be a corporation duly organized under the laws of the United States of America or any state or territory thereof, having a combined capital surplus and retained earnings of at least $10,000,000 and authorized by law to perform all the duties imposed upon it by this Indenture. The Registrar may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least 45 days' notice to the Issuer, the Trustee, the Remarketing Agent and the Company. The Registrar may be removed at any time by an instrument signed by the Authorized Company Representative and filed with the Issuer, the Registrar, the Trustee, and the Remarketing Agent. Upon the resignation or removal of the Registrar, the Company shall appoint a new Registrar.

In the event of the resignation or removal of the Registrar, the Registrar shall deliver any Bonds held by it in such capacity to its successor or, if there be no successor, to the Trustee.

In the event that the Company shall fail to appoint a Registrar hereunder, or in the event that the Registrar shall resign or be removed, or be dissolved, or if the property or affairs of the Registrar shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, and the Company shall not have appointed its successor as Registrar, the Trustee shall ipso facto be deemed to be the Registrar for all purposes of this Indenture until the appointment by the Company of the Registrar or successor Registrar, as the case may be.

SECTION 10.23. PAYING AGENTS. The Company, with the written approval of the Trustee and the Issuer, may appoint and at all times have one or more paying agents in such place or places as the Company may designate, for the payment of the principal of, and premium, if any, and the interest on, the Bonds. Each such paying agent shall have the power to hold moneys in trust. It shall be the duty of the Trustee to make such arrangements with any such paying agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and premium, if any, and interest on, the Bonds presented at either place of payment. The Paying Agent initially appointed hereunder is the Trustee, and the place of payment shall be the Delivery Office of the Trustee.

SECTION 10.24. ADDITIONAL DUTIES OF TRUSTEE. The Trustee shall:

(a) hold all Bonds delivered to it hereunder for the account of and for the benefit of the respective Owners which shall have so delivered such Bonds pursuant to Section 3.01 or Section 3.02 until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Owners;

(b) hold all moneys delivered to it hereunder for the purchase of Bonds for the benefit of the person or entity which shall have so delivered such moneys until the Bonds purchased with such moneys shall have been delivered to or for the account of such person or entity;

(c) keep such books and records with respect to the Bonds as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Issuer, any Paying Agent, the Company and the Remarketing Agent at all reasonable times; and

(d) as long as a book-entry system is in effect for the Bonds, the Trustee will comply with the DTC Representation Letter and perform all duties required of it thereunder.

ARTICLE XI

EXECUTION OF INSTRUMENTS BY OWNERS AND PROOF OF OWNERSHIP OF BONDS

Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by the Owners or on their behalf by an attorney-in-fact may be in any number of concurrent instruments of similar tenor and may be signed or executed by the Owners in person or by an agent or attorney-in-fact appointed by an instrument in writing or as provided in the Bonds. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such Jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.

(b) The ownership of Bonds shall be proved by the registration books kept under the provisions of Section 2.12 hereof.

Nothing contained in this Article XI shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of matters herein stated which it may deem sufficient. Any request by or consent of any Owner shall bind every future Owner of the same Bond or any Bond or Bonds issued in lieu thereof or upon registration of transfer thereof in respect of anything done by the Trustee or the Issuer in pursuance of such request or consent.

ARTICLE XII

MODIFICATION OF THIS INDENTURE AND THE AGREEMENT

SECTION 12.01. SUPPLEMENTAL INDENTURES WITHOUT OWNER CONSENT. The Issuer and the Trustee may, from time to time and at any time, without the consent of the Owners, enter into a Supplemental Indenture as follows:

(a) to cure any formal defect, omission, inconsistency or ambiguity in this Indenture;

(b) to add to the covenants and agreements of the Issuer contained in this Indenture or of the Company or of the Provider contained in any document, other covenants or agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved or conferred upon the Issuer or the Company, which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds;

(c) to confirm as further assurance, any pledge of or lien on the Revenues or any other moneys, securities or funds subject or to be subjected to the lien of this Indenture;

(d) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, if applicable to this Indenture;

(e) to modify, alter, amend or supplement this Indenture or any Supplemental Indenture in any other respect which in the judgment of the Trustee is not materially adverse to the Owners of the Bonds;

(f) to implement a conversion of the interest rate on the Bonds;

(g) to provide for a Change of Credit Facility;

(h) to provide for a depository to accept Bonds in lieu of the Trustee;

(i) to modify or eliminate the book-entry registration system for any of the Bonds;

(j) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal but only to the extent that such would not adversely affect the Tax-Exempt status of the Bonds;

(k) to secure or maintain ratings on the Bonds from Moody's and/or S&P;

(1) to provide demand purchase obligations to cause the Bonds to be authorized purchases for investment companies;

(m) to provide for the appointment of a Remarketing Agent or a successor Trustee, Registrar, Paying Agent or Remarketing Agent;

(n) to provide the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such right as contemplated by Section 1286 of the Code (or similar successor provision);

(o) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of the Bonds; and

(p) to modify, alter, amend or supplement this Indenture in any other respect, including amendments which would otherwise be described in Section 12.02 hereof, if the effective date of such supplement or amendment is a date on which all Bonds affected thereby are subject to mandatory purchase pursuant to Section 3.02 hereof or if notice by Mail of the Proposed amendment or supplement is given to Owners of the Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date, such Owners have the right to require purchase of their Bonds pursuant to Section 3.01 hereof.

Before the Issuer and the Trustee shall enter into any Supplemental Indenture pursuant to this Section 12.01, (1) in the case of a Supplemental Indenture entered into pursuant to clauses (l), (n) or (p) of this Section and provided that no Provider Default shall have occurred and be continuing, there shall have been delivered to the Trustee and the Company, the written consent of the Provider, and (2) in all cases, there shall have been delivered to the Trustee, the Provider and the Company, a Favorable Opinion of Bond Counsel with respect to such Supplemental Indenture and further stating that such Supplemental Indenture is authorized or permitted by this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into any such Supplemental Indenture that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

The Trustee shall provide written notice of any Supplemental Indenture described in this Section 12.01 to Moody's, S&P, the Provider, the Remarketing Agent and the Owners of all Bonds then Outstanding at least 15 days prior to the effective date of such Supplemental Indenture. Such notice shall state the effective date of such Supplemental Indenture and shall briefly describe the nature of such Supplemental Indenture and shall state that a copy thereof is on

file at the Principal Office of the Trustee for inspection by the parties mentioned in the preceding sentence.

SECTION 12.02. SUPPLEMENTAL INDENTURES REQUIRING OWNER CONSENT.

(a) Except for any Supplemental Indenture entered into pursuant to Section 12.01 hereof, subject to the terms and provisions contained in this Section 12.02 and not otherwise, the Provider (unless a Provider Default shall have occurred and be continuing), together with the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding shall have the right from time to time to consent to and approve the execution and delivery by the Issuer and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Issuer for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided however, that, unless approved in writing by the Provider (unless a Provider Default shall have occurred and be continuing) and the Owners of all the Bonds then affected thereby, nothing herein contained shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of, or premium if any, or interest on, any Outstanding Bond, a change in the terms of the purchase thereof by the Trustee, or a reduction in the principal amount or redemption price of any Outstanding Bond or the rate of interest thereon, or (ii) the creation of a claim or lien upon, or a pledge of, the Revenues ranking prior to or on a parity with the claim, lien or pledge created by this Indenture (except as referred to in Section 10.04 hereof), or (iii) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required, under Section 12.06 hereof, for any modification, alteration, amendment or supplement to the Agreement.

(b) If at any time the Issuer shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 12.02, the Trustee shall cause notice of the proposed Supplemental Indenture to be given by Mail to Moody's, S&P, the Provider, the Remarketing Agent and all Owners of Outstanding Bonds. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the Principal Office of the Trustee for inspection by the Owners, Moody's, S&P, the Provider and the Remarketing Agent.

(c) Within two years after the date of the mailing of such notice, the Issuer and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice, but only if there shall have first been delivered to the Trustee (i) the required consents, in writing, of the Owners and the Provider and (ii) a Favorable Opinion of Bond Counsel with respect to such Supplemental Indenture and further stating that such Supplemental Indenture is authorized or permitted by this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into any such Supplemental Indenture that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

(d) If Owners of not less than the percentage of Bonds required by this Section 12.02 shall have consented to and approved the execution and delivery of a Supplemental Indenture as herein provided, no Owner shall have any right to object to the execution and delivery of such

Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Issuer or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

SECTION 12.03. EFFECT OF SUPPLEMENTAL INDENTURE. Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article XII, this Indenture shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture shall thereafter be determined, exercised and enforced under this Indenture subject in all respects to such modifications and amendments.

SECTION 12.04. CONSENT OF THE COMPANY AND THE PROVIDER. No Supplemental Indenture under this Article XII and no amendment of the Agreement shall become effective unless the Company shall have consented thereto in writing.

Any provision of this Indenture expressly recognizing or granting rights in or to the Provider may not be amended in any manner which affects the rights of the Provider hereunder without the prior written consent of the Provider.

SECTION 12.05. AMENDMENT OF AGREEMENT WITHOUT OWNER CONSENT. Without the consent of or notice to the Owners, the Issuer and the Company may, with the consent of the Provider (unless a Provider Default shall have occurred and be continuing) modify, alter, amend or supplement the Agreement, and the Trustee may consent thereto, as may be required:

(a) by the provisions of the Agreement and this Indenture;

(b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein;

(c) in connection with any other change therein which in the judgment of the Trustee is not materially adverse to the Owners;

(d) to secure or maintain ratings on the Bonds from Moody's and/or S&P;

(e) to add to the covenants and agreements of the Issuer contained in the Agreement or of the Company or of the Provider contained in any document, other covenants or agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved or conferred upon the Issuer or the Company, which shall not materially adversely affect the interest of the Owners of the Bonds;

(f) to provide demand purchase obligations to cause the Bonds to be authorized purchases for investment companies;

(g) to provide the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell

or dispose of such right as contemplated by Section 1286 of the Code (or similar successor provision);

(h) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds;

(i) to implement a conversion of the interest rate on the Bonds or in connection with the appointment of a Remarketing Agent;

(j) to provide for a Change of Credit Facility; and

(k) to modify, alter, amend or supplement the Agreement in any other respect, including amendments which would otherwise be described in Section 12.06 hereof, if the effective date of such supplement or amendment is a date on which all Bonds affected thereby are subject to mandatory purchase pursuant to Section 3.02 hereof or if notice by Mail of the proposed amendment or supplement is given to Owners of the Bonds at least thirty (30) days before the effective date thereof and, on or before such effective date-, such Owners have the right to demand purchase of their Bonds pursuant to Section 3.01 hereof.

A revision of Exhibit A to the Agreement in accordance with Section 3.04 of the Agreement shall not be deemed a modification, alteration, amendment or supplement to the Agreement, or to this Indenture, for any purpose of this Indenture.

Before the Issuer shall enter into, and the Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement pursuant to this Section 12.05, there shall have been delivered to the Issuer, the Provider and the Trustee a Favorable Opinion of Bond Counsel with respect to such modification, alteration, amendment or supplement and further stating that such modification, alteration, amendment or supplement is authorized or permitted by the Agreement or this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into or consent to any such modifications, alterations, amendments or supplements to the Agreement that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

SECTION 12.06. AMENDMENT OF AGREEMENT REQUIRING OWNER CONSENT. Except in the case of modifications, alterations, amendments or supplements referred to in Section 12.05 hereof, the Issuer shall not enter into, and the Trustee shall not consent to, any amendment, change or modification of the Agreement without the written approval or consent of the Provider (unless a Provider Default shall have occurred and be continuing) and the Owners of not less than 60% in aggregate principal amount of the Bonds then Outstanding, given and procured as provided in Section 12.02 hereof, provided, however, that, unless approved in writing by the Provider (unless a Provider Default shall have occurred and be continuing) and the Owners of all Bonds affected thereby, nothing herein contained shall permit, or be construed as permitting, a change in the obligations of the Company under Section 4.01 and Section 4.02 of the Agreement. If at any time the Issuer or the Company shall request the consent of the Trustee to any such proposed

modification, alteration, amendment or supplement permitted under this Section 12.06, the Trustee shall cause notice thereof to be given in the same manner as provided by Section 12.02 hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed modification, alteration, amendment or supplement and shall state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by all Owners. The Issuer may enter into, and the Trustee may consent to, any such proposed modification, alteration, amendment or supplement subject to the same conditions and with the same effect as provided in Section 12.02 hereof with respect to Supplemental Indentures.

Before the Issuer shall enter into, and the Trustee shall consent to, any modification, alteration, amendment or supplement to the Agreement pursuant to this Section 12.06, there shall have been delivered to the Issuer, the Provider and the Trustee a Favorable Opinion of Bond Counsel with respect to such modification, alteration, amendment or supplement and further stating that such modification, alteration, amendment or supplement is authorized or permitted by the Agreement or this Indenture and will, upon the execution and delivery thereof, be valid and binding upon the Issuer in accordance with its terms. Neither the Issuer nor the Trustee will be obligated to enter into any such modifications, alterations, amendments or supplements to the Agreement that would materially alter their respective rights, duties or immunities under this Indenture, under the Agreement or otherwise.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01. SUCCESSORS OF THE ISSUER. In the event of the dissolution of the Issuer, all the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of, or for the benefit of the Issuer, shall bind or inure to the benefit of the successors of the Issuer from time to time and any entity, officer, board, commission, agency or instrumentality to whom or to which any power or duty of the Issuer shall be transferred.

SECTION 13.02. PARTIES IN INTEREST. Except as herein otherwise specifically provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the Issuer, the Remarketing Agent, the Registrar, the Paying Agent, the Company, the Trustee, the Provider and the Owners of Bonds any right, remedy or claim under or by reason of this Indenture, this Indenture being intended to be for the sole and exclusive benefit of the Issuer, the Remarketing Agent, the Registrar, the Paying Agent, the Company, the Trustee, the Provider and the Owners of Bonds. The Trustee shall have no fiduciary duty to any entity other than the Owner of any Bond as such and only in accordance with, into the extent of, the terms and provisions hereunder.

SECTION 13.03. SEVERABILITY. In case any one or more of the provisions of this Indenture or of the Agreement or of the Bonds shall for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture, the Agreement, or of the Bonds, and this Indenture, the Agreement and the Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained herein or therein.

SECTION 13.04. NO PERSONAL LIABILITY OF ISSUER OFFICIALS. No representation, warranty, covenant or agreement contained in the Bonds or in this Indenture or in any of the documents or certificates related thereto shall be deemed to be the representation, warranty, covenant or agreement of any official, officer, agent, counsel or employee of the Issuer in his or her individual capacity, and neither the members of the Issuer nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

SECTION 13.05. BONDS OWNED BY THE ISSUER OR THE COMPANY. In determining whether the Owners of the requisite aggregate principal amount of the Bonds have concurred in any direction, consent or waiver under this Indenture, Bonds which are owned by the Issuer or the Company or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (unless the Issuer, the Company or such person owns all Bonds which are then Outstanding, determined without regard to this Section 13.05) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Bonds which the Trustee actually knows are so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Issuer or the Company or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 13.06. COUNTERPARTS. This Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Indenture.

SECTION 13.07. GOVERNING LAW. This Indenture shall be governed by and construed in accordance with the laws of the State; provided, however, that the rights, protections and immunities of the Trustee shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 13.08. NOTICES. Except as otherwise provided in this Indenture, all notices, certificates, requests, requisitions, directions or other communications by the Issuer, the Company, the Trustee, the Registrar, the Paying Agent, the Provider or the Remarketing Agent, pursuant to this Indenture shall be in writing and shall be sufficiently given and shall be deemed given when mailed by Mail or by certified or registered mail postage prepaid, or by overnight delivery service, addressed as follows (and, if by overnight delivery service and required by the chosen delivery service, with then-current telephone numbers of the addressees):

if to the Issuer, to: City of Forsyth, Montana
City Hall
Forsyth, Montana 59327
Attention: Mayor

if to the Trustee, to: Chase Manhattan Bank and Trust Company,
National Association
101 California Street, Suite 2725
San Francisco, California 94111
Attention: Corporate Trust Administration

if to the Company, to: Avista Corporation
1411 East Mission Avenue
Spokane, Washington 99220
Attention: Treasurer

if to the Provider, to: Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: General Counsel

if to the Registrar or the Paying Agent, to such address as is designated in writing by it to the Trustee and the Issuer; if to any Auction Agent, at the address specified in the Auction Agreement; and if to any Remarketing Agent, at the address specified in the Remarketing Agreement. Any of the foregoing may, by notice given hereunder to each of the others, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent hereunder. Any communications required to be given hereunder by the Company shall be given by an Authorized Company Representative.

SECTION 13.09. HOLIDAYS. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall not be a Business Day, such payment may, unless otherwise provided in this Indenture or the Agreement, be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Indenture, and no interest shall accrue for the period after such nominal date.

SECTION 13.10. PURCHASE OF BONDS BY TRUSTEE AND REMARKETING AGENT. The Trustee and the Issuer agree that in connection with the purchase of any Bonds pursuant to this Indenture, the Trustee and the Remarketing Agent are acting solely on behalf of the Company.

SECTION 13.11. NOTICES TO MOODY'S AND S&P. The Trustee shall provide prior written notice to Moody's (if the Bonds are then rated by Moody's) and to S&P (if the Bonds are then rated by S&P) of (a) the payment of the principal of all of the Bonds, (b) the resignation or removal of the Trustee or the Remarketing Agent, (c) any modifications, alterations, amendments or supplements of this Indenture, the Agreement and the Remarketing Agreement, and (d) the conversion under Article II hereof of the method by which interest on the Bonds is determined.

The agreement of the Trustee herein to give notices to Moody's and S&P has been made as a matter of courtesy and accommodation only and the Trustee shall not be liable to any Person for any failure to give any such notice.

SECTION 13.12. RIGHTS OF PROVIDER. Upon a Change of Credit Facility, all rights provided herein to a Provider other than its right of subrogation pursuant to Section 2.17(f) shall be of no force and effect with respect to the Provider and Credit Facility which has been replaced and shall apply only to the new Provider and Credit Facility.

IN WITNESS WHEREOF, CITY OF FORSYTH, MONTANA, has caused this Indenture to be signed in its name and behalf by the Mayor, and its official seal to be hereunto affixed and attested by the City Clerk-Treasurer and to evidence its acceptance of the trusts hereby created the Trustee has caused this Indenture to be signed in its name and behalf by one of its Assistant Vice Presidents, all as of September 1, 1999.

CITY OF FORSYTH, MONTANA

By:

Mayor

[SEAL]

ATTEST:

- ---
City Clerk-Treasurer

CHASE MANHATTAN BANK AND TRUST COMPANY,
NATIONAL ASSOCIATION,
as Trustee

By:

Assistant Vice President

EXHIBIT A

[FORM OF BOND]

STATEMENT OF INSURANCE

Municipal Bond Insurance Policy No. (the "Policy") with respect to payments due for principal of and interest on this bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to the United States Trust Company of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

REGISTERED REGISTERED

No. R-__ $_____

UNITED STATE OF AMERICA

STATE OF MONTANA

CITY OF FORSYTH, MONTANA
POLLUTION CONTROL REVENUE REFUNDING BONDS
(AVISTA CORPORATION COLSTRIP PROJECT)
SERIES 1999B

MATURITY DATE	ISSUE DATE	CUSIP NO.
March 1, 2034	September ___, 1999	_____

[FLEXIBLE INTEREST RATE: _____

LAST DAY OF FLEXIBLE SEGMENT: _____

NUMBER OF DAYS IN FLEXIBLE SEGMENT: _____

AMOUNT OF INTEREST TO ACCRUE DURING FLEXIBLE SEGMENT: ___]*

- ------------------
* To be included only in Bonds bearing interest at a Flexible Interest Rate and not registered in the book-entry system pursuant to Section 2.16 of the Indenture.

Registered Owner: _____

Principal Amount: DOLLARS
---------- ----------

CITY OF FORSYTH, MONTANA (the "Issuer"), a political subdivision duly organized and existing under the Constitution and laws of the State of Montana, for value received, hereby promises to pay (but only out of the source hereinafter provided) to the registered owner identified above, or registered assigns, on March 1, 2034, the principal amount set forth above and to pay (but only out of the sources hereinafter provided) interest on the balance of said principal amount from time to time remaining unpaid from the Interest Payment Date (as defined in the Indenture) next preceding the date of registration and authentication hereof unless this Bond (as hereinafter defined) is registered and authenticated after a Record Date (as defined in the Indenture) and on or prior to the related Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless this Bond is registered and authenticated before the Record Date for the first Interest Payment Date, in which event this Bond shall bear interest from the Issue Date set forth above (the "Issue Date"); provided, however, that if, as shown by the records of the Paying Agent (as hereinafter defined), interest on the Bonds (as hereinafter defined) shall be in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date, until payment of said principal amount has been made or duly provided for, at the rates and on the dates determined as described herein and in the Indenture (as hereinafter defined), and to pay (but only out of the sources hereinafter provided) interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate then borne by this Bond, except as the provisions hereinafter set forth with respect to redemption, purchase or acceleration prior to maturity may become applicable hereto. The principal of and premium, if any, on this Bond are payable in lawful money of the United States of America at the principal corporate trust office in San Francisco, California, of Chase Manhattan Bank and Trust Company, National Association, or its successors and assigns, as Paying Agent (the "Paying Agent"). Interest payments on this Bond shall be made by the Paying Agent to the registered owner hereof as of the close of business on the Record Date with respect to each Interest Payment Date and shall be paid:

(a) in respect of any Bond that is registered in the book-entry system, pursuant to the Indenture, in immediately available funds by no later than 2:30 p.m., New York, New York time, and

(b) in respect of any Bond that is not registered in the book-entry system,

(i) by bank check mailed by first-class mail on the Interest Payment Date to the registered owner hereof at its address as it appears on the registration books of Chase Manhattan Bank and Trust Company, National Association, as registrar (the "Registrar") or at such other address as is furnished in writing by such registered owner to the Registrar, or

(ii) during any Rate Period (as defined in the Indenture) other than a Term Interest Rate Period (as defined in the Indenture), in immediately available funds on the Interest Payment Date (by wire transfer or by deposit to the account of the registered owner of this Bond if such account is maintained with the Paying Agent),

but in respect of any registered owner of any Bond or Bonds in a PARS Rate Period (as defined in the Indenture) or a Daily Interest Rate Period (as defined in the Indenture) or a Weekly Interest Rate Period (as defined in the Indenture) or a Flexible Interest Rate Period (as defined in the Indenture), only to any registered owner that owns Bonds in an aggregate principal amount of at least $1,000,000 on such Record Date, according to the written instructions given by the registered owner hereof to the Paying Agent or, if no such instructions have been provided as of the Record Date, by bank check mailed by first-class mail on the Interest Payment Date to the registered owner at such registered owner's address as it appears as of the Record Date on the registration books of the Registrar. Notwithstanding the foregoing, interest in respect of any Bond bearing a Flexible Rate (as defined in the Indenture) shall be paid only upon presentation to Chase Manhattan Bank and Trust Company, National Association, as Trustee (the "Trustee") of the Bond on which such payment is due.

THIS BOND AND ALL OTHER BONDS OF THE ISSUE OF WHICH IT FORMS A PART SHALL BE A LIMITED OBLIGATION OF THE ISSUER, SHALL NOT CONSTITUTE NOR GIVE RISE TO A GENERAL OBLIGATION OR LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT OR TAXING POWERS, AND SHALL NOT CONSTITUTE AN INDEBTEDNESS OF THE ISSUER OR OF THE STATE OF MONTANA, OR A LOAN OF CREDIT THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION.

This Bond is one of the duly authorized Pollution Control Revenue Refunding Bonds (Avista Corporation Colstrip Project) Series 1999B of the Issuer, originally issued in the aggregate principal amount of $17,000,000 (the "Bonds"), issued pursuant to proper action duly adopted by the Issuer on May 11, 1999 and May 18, 1999, and the applicable provisions of Sections 90-5-101 to 90-5-114, inclusive, Montana Code Annotated, as amended (the "Act"), and executed under a Trust Indenture, dated as of September 1, 1999 (the "Indenture"), between the Issuer and Chase Manhattan Bank and Trust Company, National Association, as trustee (the "Trustee," which term shall include any successor Trustee), for the purpose of providing the funds necessary for the refunding of certain pollution control revenue bonds previously issued by the Issuer to finance certain pollution control facilities owned by Avista Corporation, a Washington corporation (the "Company"). Pursuant to the Loan Agreement, dated as of September 1, 1999 (the "Loan Agreement"), between the Issuer and the Company, the proceeds of the Bonds have been loaned to the Company.

This Bond and all other Bonds of the issue of which it forms a part are issued pursuant to and in full compliance with the Constitution and laws of the State of Montana, particularly the Act, and pursuant to further proceedings adopted by the governing authority of the Issuer, which proceedings authorize the execution and delivery of the Indenture. This Bond and the issue of which it forms a part are limited and not general obligations of the Issuer payable solely from the Revenues (as defined in the Indenture) and amounts derived under the Loan Agreement and pledged under the Indenture consisting of all amounts payable from time to time by the Company

in respect of the indebtedness under the Loan Agreement and all receipts of the Trustee credited under the provisions of the Indenture against said amounts payable. No Owner of any Bond issued under the Act has the right to compel any exercise of the taxing power of the Issuer to pay the Bonds, or the interest or premium if any, thereon. The Bonds shall not constitute an indebtedness or a general obligation of the Issuer or a loan of credit thereof within the meaning of any constitutional or statutory provision, nor shall any of the Bonds constitute or give rise to a pecuniary liability of the Issuer or a charge against its general credit or taxing powers.

Any term used herein as a defined term but not defined herein shall be defined as in the Indenture.

In the manner hereinafter provided and subject to the provisions of the Indenture, the term of the Bonds will be divided into consecutive Rate Periods during each of which the Bonds shall bear interest at the lesser of (a) Maximum Interest Rate (as defined in the Indenture) or (b) either the PARS Rate (the "PARS Rate Period"), the Daily Interest Rate (the "Daily Interest Rate Period"), the Weekly Interest Rate (the "Weekly Interest Rate Period"), the Term Interest Rate (the "Term Interest Rate Period") or the Flexible Interest Rate (the "Flexible Interest Rate Period"). Rate Periods for this Bond shall be determined in accordance with the Indenture.

This Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication hereof unless it is registered and authenticated after a Record Date and on or prior to the related Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless this Bond is registered and authenticated before the Record Date for the first Interest Payment Date, in which event this Bond shall bear interest from the Issue Date; provided, however, that if, as shown by the records of the Paying Agent, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the Issue Date. Interest shall be computed, (a) in the case of a PARS Rate Period, on the basis of a 360-day year for the actual number of days elapsed except that interest during a six-month Auction Period shall be calculated on the basis of a 360-day year composed of twelve 30-day months, (b) in the case of a Term Interest Rate Period, on the basis of a 360-day year consisting of twelve 30-day months, and (c) in the case of any other Rate Period, on the basis of a 365 or 366 day year, as appropriate, for the actual number of days elapsed. The term "Interest Payment Date" means (i) with respect to any PARS Rate Period, the Business Day immediately following the Initial Period and (y) when used with respect to any Auction Period other than a daily Auction Period, the Business Day immediately following such Auction Period and (z) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (ii) with respect to any Daily or Weekly Interest Rate Period, the first Business Day of each calendar month, (iii) with respect to any Term Interest Rate Period, the first day of the sixth month following the commencement of the Term Interest Rate Period and the first day of each sixth month thereafter, and the day following the last day of a Term Interest Rate Period, (iv) with respect to any Flexible Segment, the Business Day next succeeding the last day thereof, and (v) with respect to any Rate Period, the day next succeeding the last day thereof. The term "Business Day" means any day except a Saturday, Sunday or other day (a) on which commercial banks located in the cities in which the Principal Office of the Trustee, the Principal

Office of the Company, the Principal Office of the Remarketing Agent or the Principal Office of the Paying Agent are located are required or authorized by law to remain closed or are closed, or (b) on which The New York Stock Exchange is closed.

The Bonds shall be deliverable in the form of registered Bonds without coupons in the following denominations: (i) $25,000 or any integral multiple of $25,000 when the Bonds bear interest at a PARS Rate; (ii) $100,000 or any integral multiple of $100,000 when the Bonds bear interest at a Daily or Weekly Interest Rate; (iii) $100,000 or any integral multiple of $5,000 in excess of $100,000 when the Bonds bear interest at a Flexible Interest Rate; and (iv) $5,000 or integral multiples of $5,000 when the Bonds bear interest at a Term Interest Rate (such denominations being referred to herein as ("Authorized Denominations").

As provided in the Loan Agreement, the Company may, at its option, provide for a Change of Credit Facility (as defined in the Indenture), which includes the delivery or termination (or a combination thereof) of one or more letters of credit, bond insurance policies, standby bond purchase agreements, lines of credit, first mortgage bonds or other security instruments or liquidity devices.

During each PARS Rate Period, the Bonds shall bear interest, determined in accordance with the provisions of the Indenture, by the Auction Agent for each Auction Period.

During each Daily Interest Rate Period, the Bonds shall bear interest at a Daily Interest Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on each Business Day for such Business Day. If the Remarketing Agent shall not have determined a Daily Interest Rate for any day by 10:00 a.m., New York, New York time, the Daily Interest Rate for such day shall be the same as the Daily Interest Rate for the immediately preceding day.

During each Weekly Interest Rate Period, the Bonds shall bear interest at a Weekly Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent no later than the first day of such Weekly Interest Rate Period and thereafter no later than Tuesday of each week during such Weekly Interest Rate Period, unless any such Tuesday shall not be a Business Day, in which event the Weekly Interest Rate shall be determined by the Remarketing Agent no later than the Business Day next preceding such Tuesday.

During each Term Interest Rate Period, the Bonds shall bear interest at the Term Interest Rate, determined in accordance with the provisions of the Indenture by the Remarketing Agent on a Business Day selected by the Remarketing Agent but no more than 60 days prior to and not later than the effective date of such Term Interest Rate Period.

During each Flexible Interest Rate Period, each Bond shall bear interest during each Flexible Segment for such Bond at the Flexible Interest Rate for such Bond as described in the Indenture. Each Flexible Segment and Flexible Interest Rate shall be determined in accordance with the provisions of the Indenture by the Remarketing Agent. Each Flexible Segment shall be a period of not less than one nor more than 270 days.

At the times and subject to the conditions set forth in the Indenture, the Company may elect that the Bonds shall bear interest at an interest rate, and for a period, different from those then applicable. The Trustee shall give notice of any such adjustment to the owners of the Bonds not less than 15 days prior to the effective date of such adjustment.

During any Daily Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof) upon (a) delivery to the Trustee at the Delivery Office of the Trustee, by not later than 11:00 a.m., New York, New York time, on such Business Day, of an irrevocable written notice or irrevocable notice by telephone, which states the principal amount and the certificate number (if the Bonds are not then held in book entry form) of such Bond and the date on which the same shall be purchased, and (b) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the owner thereof with the signature of such owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the date specified in such notice.

During any Weekly Interest Rate Period, any Bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on any Business Day at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the principal amount thereof), upon (a) delivery to the Trustee at the Delivery Office of the Trustee of an irrevocable written notice or an irrevocable notice by telephone (promptly confined by telecopy or other writing), by 5:00 p.m., New York, New York time, on any Business Day, which states the principal amount of such Bond and the certificate number (if the Bonds are not held in book-entry form) and the date on which the same shall be purchased, which date shall not be prior to the seventh day next succeeding the date of the delivery of such notice to the Trustee, and (b) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the date specified in such notice.

Any bond or portion thereof in an Authorized Denomination shall be purchased at the option of the Owner thereof on the first day of any Term Interest Rate Period which is preceded by a Term Interest Rate Period of equal duration at a purchase price equal to 100% of the principal amount thereof, upon (i) delivery to the Trustee at the Delivery Office of the Trustee accompanied by an instrument of transfer thereof in a form satisfactory to the Trustee of an irrevocable notice in writing by 5:00 p.m., New York, New York time, on any Business Day not

less than fifteen days before the purchase date, which states the principal amount and certificate number (if the Bonds are not then held in book-entry form) of such Bond to be purchased and (ii) except when a book-entry system is in effect for the Bonds, delivery of such Bond to the Trustee at the Delivery Office of the Trustee, accompanied by an instrument of transfer thereof, in a form satisfactory to the Trustee, executed in blank by the Owner thereof with the signature of such Owner guaranteed by a member or participant in a "signature guarantee program" as provided in the form of assignment attached to such Bond, at or prior to 1:00 p.m., New York, New York time, on the purchase date.

"Record Date" means (a) with respect to a PARS Rate Period other than a daily Auction Period, the second Business Day preceding an Interest Payment Date therefor and during a daily Auction Period, the last Business Day of the month preceding an Interest Payment Date therefor, (b) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, Weekly Interest Rate Period or Flexible Segment, the Business Day next preceding such Interest Payment Date, (c) with respect to any Interest Payment Date in respect of any Term Interest Rate Period, the fifteenth day of the month preceding such Interest Payment Date (except as provided in the following clause (d); and (d) for any Interest Payment Date established pursuant to clause (e) of the definition of "Interest Payment Date" in Section 1.01 of the Indenture in respect of a Term Interest Rate Period, the Business Day next preceding such Interest Payment Date.

In each case in which a portion of a Bond is purchased, both the portion so purchased and the portion of such Bond not so purchased shall be in Authorized Denominations.

This Bond shall be subject to mandatory purchase at a purchase price equal to 100% of the principal amount thereof to the purchase date plus accrued interest, if any, to the purchase date: (a) on the effective date of any change in a Rate Period with respect to this Bond other than the effective date of a Term Interest Rate Period which was preceded by a Term Interest Rate Period of the same duration; (b) during any Flexible Interest Rate Period, on the day next succeeding the last day of any Flexible Segment thereof; and (c) in connection with a Change of Credit Facility, as provided in Section 3.02(a)(iii) of the Indenture.

The Bonds are also subject to mandatory purchase during any Term Interest Rate Period on a day that the Bonds would be subject to optional redemption pursuant to Section 4.02(b)(iv) of the Indenture, at a purchase price equal to 100% the principal amount thereof plus an amount equal to any premium which would have been payable on such redemption date had the Bonds been redeemed if the Company gives notice to the Trustee on or before the Business Day prior to the redemption date that it elects to have the Bonds purchased in lieu of redemption. If the Bonds are purchased on or prior to the Record Date, the purchase price shall include accrued interest from the Interest Payment Date next preceding the date of purchase to the date of purchase (unless the date of purchase shall be an Interest Payment Date, in which case the purchase price shall be equal to the amount specified in the preceding sentence). If the Bonds are purchased after the Record Date, the purchase price shall not include accrued interest.

BY ACCEPTANCE OF THIS BOND, THE REGISTERED OWNER HEREBY AGREES THAT, IF THIS BOND IS TO BE PURCHASED AND IF MONEYS SUFFICIENT TO PAY THE PURCHASE PRICE SHALL BE HELD BY THE TRUSTEE ON THE DATE THIS BOND IS TO BE PURCHASED, THIS BOND

SHALL BE DEEMED TO HAVE BEEN PURCHASED AND SHALL BE PURCHASED ACCORDING OF THE INDENTURE, WHETHER OR NOT THIS BOND SHALL HAVE BEEN DELIVERED TO THE TRUSTEE, AND THE OWNER OF THIS BOND SHALL HAVE NO CLAIM HEREON, UNDER THE INDENTURE OR OTHERWISE, FOR ANY AMOUNT OTHER THAN THE PURCHASE PRICE HEREOF.

The Bonds shall be redeemed in whole or in part, and if in part by lot, at any time at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date upon receipt by the Trustee of a written notice from the Company stating that any of the following events has occurred and that the Company therefore intends to exercise its option to prepay the payments due under the Loan Agreement in whole or in part and thereby effect the redemption of Bonds in whole or in part to the extent of such prepayments: (a) the Company shall have determined or concurred in a determination that the continued operation of the Plant is impracticable, uneconomical or undesirable for any reason; (b) all or substantially all of the Plant shall have been condemned or taken by eminent domain; (c) the operation of the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body; (d) unreasonable burdens or excessive liabilities shall have been imposed upon the Company in respect of all or a part of the Pollution Control Facilities or the Plant including, without limitation, federal, state or other ad valorem, property, income or other taxes not being imposed on the date of the Loan Agreement, as well as any statute or regulation enacted or promulgated after the date of the Loan Agreement that prevents the Company from deducting interest in respect of the Agreement for federal income tax purposes; or (e) all or substantially all of the Project shall be transferred or sold to any entity other than an affiliate of the Company; provided, however, that in the case of a redemption under this paragraph, the redemption price of the Bonds shall be equal to 101% of the principal amount thereof, plus accrued interest to the date of redemption, unless a smaller or no premium would be due upon optional redemption of the Bonds as described in the following paragraph.

The Bonds shall be subject to redemption upon prepayment of the Loan Payments at the option of the Company, in whole, or in part by lot, prior to their maturity, as follows:

(a) While the Bonds bear interest at a PARS Rate, the Bonds shall be subject to such redemption on the date next succeeding the last day of any PARS Rate Period at a redemption price equal to 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(b) While the Bonds bear interest at a Flexible Interest Rate or Rates, each Bond shall be subject to such redemption on the day next succeeding the last day of each Flexible Segment for such Bond at a redemption price equal to 100% of the principal amount thereof.

(c) While the Bonds bear interest at a Daily Interest Rate or a Weekly Interest Rate, the Bonds shall be subject to such redemption on any Business Day at a redemption price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

(d) While the Bonds bear interest at a Term Interest Rate, the Bonds shall be subject to such redemption (1) on the day next succeeding the last day of each Term Interest Rate Period at a redemption price equal to the principal amount of the Bonds being redeemed plus accrued interest, if any, to the redemption date and (2) either (i) on the redemption dates and at the redemption prices specified by the Company pursuant to the next succeeding paragraph or (ii) during the redemption periods specified below, in each case in whole or in part, at the redemption prices (expressed as percentages of principal amount) hereinafter indicated plus accrued interest, if any, to the redemption date:

LENGTH OF TERM INTEREST RATE PERIOD	REDEMPTION DATES AND PRICES
Greater	than or equal to 11 years At any time on or after the first day of the calendar month following the tenth anniversary of the effective date at 102% declining 1% annually to 100%
Less than 11 years	Not redeemable

With respect to any Term Interest Rate Period, the Company may specify in a notice given to the Trustee redemption provisions, prices and periods other than those set forth above; provided, however, that such notice shall be accompanied by a Favorable Opinion of Bond Counsel to the effect that the proposed action is not prohibited by the laws of the State and the Indenture and will not adversely affect the Tax-Exempt status of the Bonds.

The Bonds shall be redeemed in whole on any date from amounts which are to be prepaid by the Company under the Loan Agreement, at a redemption price equal to 100% of the principal amount thereof plus interest accrued, if any, to the redemption date within 180 days after the occurrence of a Determination of Taxability; provided that if, in the Favorable Opinion of Bond Counsel delivered to the Trustee, the redemption of a specified portion of the Bonds outstanding would have the result that interest payable on the Bonds remaining outstanding after such redemption would remain Tax-Exempt, then the Bonds shall be redeemed in part by lot (in Authorized Denominations), in such amount as Bond Counsel in such opinion shall have determined is necessary to accomplish that result.

A "Determination of Taxability" shall be deemed to have occurred if as a result of the Company's failure to observe any covenant, agreement or representation in the Loan Agreement, a final decree or judgment of any federal court or a final action of the Internal Revenue Service determines that interest paid or payable on any Bond is or was includible in the gross income of an Owner of the Bonds for federal income tax purposes under the Code (other than an Owner who is a "substantial user" or "related person" within the meaning of Section 147(a) of the Code). However, no such decree or action will be considered final for this purpose unless the Company has been given written notice and, if it is so desired and is legally allowed, has been afforded the opportunity to contest the same, either directly or in the name of any Owner of a Bond, and until conclusion of any appellate review, if sought.

Notice of any optional or mandatory redemption shall be given by first-class mail not less than 15 days nor more than 60 days prior to the date fixed for redemption to the Owners of Bonds at the address shown on the registration books of the Registrar on the date such notice is mailed. If less than all of the Bonds are called for redemption, the Trustee shall select the Bonds or any given portion thereof from the outstanding Bonds or such given portion thereof not previously called for redemption, by lot. For the purpose of any such selection the Trustee shall assign a separate number for each minimum Authorized Denomination of each Bond of a denomination of more than such minimum; provided that, following any such selection, both the portion of such Bond to be redeemed and the portion remaining shall be in Authorized Denominations.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the Principal Office of the Registrar for a like aggregate principal amount of Bonds of the same tenor and of Authorized Denominations.

This Bond is transferable by the person in whose name it is registered, in person, or by its attorney duly authorized in writing, at the Principal Office of the Registrar, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond accompanied by a written instrument of transfer in a form approved by the Registrar, duly executed. Upon such transfer a new fully registered Bond or Bonds in Authorized Denominations, for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

The Issuer, the Registrar, the Trustee and any agent of the Issuer, the Registrar or the Trustee may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and neither the Issuer, the Registrar, the Trustee, any paying agent nor any such agent shall be affected by notice to the contrary.

The Bonds are equally and ratably secured, to the extent provided in the Indenture, by the pledge thereunder of the "Revenues," which term is used herein as defined in the Indenture and which as therein defined means all moneys paid or payable to the Trustee for the account of the Issuer in accordance with the Loan Agreement and all receipts credited under the provisions of the Indenture against such payments; provided, however, that "Revenues" shall not include moneys held by the Trustee to pay the purchase price of Bonds subject to purchase pursuant to the Indenture. The Issuer has also pledged and assigned to the Trustee as security for the Bonds all other rights and interests of the Issuer under the Loan Agreement (other than its rights to indemnification and certain administrative expenses and certain other rights).

The Owner of this Bond shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

With certain exceptions as provided therein, the Indenture and the Loan Agreement may be modified or amended only with the consent of the Provider (unless a Provider Default as

specified in the Indenture shall have occurred and be continuing) and the Owners of not less than 60% in aggregate principal amount of all Bonds then Outstanding under the Indenture.

Reference is hereby made to the Indenture, the Loan Agreement, the Credit Facility and the Tax Certificate, copies of which are on file with the Trustee, for the provisions, among others, with respect to the nature and extent of the rights, duties and obligations of the Issuer, the Company, the Trustee, the Registrar, the Remarketing Agent and the Owners of the Bonds. The Owner of this Bond, by the acceptance hereof, is deemed to have agreed and consented to and to be bound by the terms and provisions of the indenture, the Loan Agreement and the Tax Certificate.

The Indenture prescribes the manner in which it may be discharged, including (a) a provision that the Bonds shall be deemed to be paid if moneys sufficient to pay the principal of, premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee, the Registrar, the Provider and the Remarketing Agent, shall have been deposited with the Trustee, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of delivery of the Bonds to the Trustee for purchase, and (b) a provision that, if the Bonds mature or are called for redemption prior to the next date upon which the Bonds are subject to purchase pursuant to the Indenture, and if the Company waives its right to convert the interest rate borne by the Bonds, the Bonds shall be deemed to be paid if Government Obligations, as defined therein, maturing as to principal and interest in such amounts and at such times as to insure the availability of sufficient moneys to pay the principal of, premium, if any, and interest on the Bonds and all necessary and proper fees, compensation and expenses of the Trustee and the Registrar, shall have been deposited with the Trustee, after which the Bonds shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of registration and exchange of Bonds and of such payment.

No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture contained, against any past, present or future officer, elected official agent or employee of the Issuer, or any incorporator, officer, director or member of any successor corporation, as such, either directly or through the Issuer or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, officer, director or member is hereby expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the issuance of this Bond and the issue of which it forms a part, together with all other obligations of the Issuer, does not exceed or violate any constitutional or statutory limitation of indebtedness.

This Bond shall not be entitled to any security or benefit under the Indenture, or be valid or become obligatory for any purpose, until this Bond shall have been authenticated by the execution by the Registrar of the certificate of authentication inscribed hereon.

IN WITNESS WHEREOF, CITY OF FORSYTH, MONTANA, has caused this Bond to be executed in its name with the signature of its Mayor and attested by the signature of its City Clerk-Treasurer, all as of the Issue Date specified above.

CITY OF FORSYTH, MONTANA

By:

Mayor

[SEAL]

ATTEST:

- ---
City Clerk-Treasurer

[FORM OF TRUSTEE'S CERTIFICATE]

CERTIFICATE OF AUTHENTICATION

This is to certify that this Bond is one of the Bonds of the Series described in the within-mentioned Indenture.

CHASE MANHATTAN BANK AND TRUST COMPANY,
NATIONAL ASSOCIATION,
as Registrar

By:

Authorized Signatory

Date of registration and authentication: _____

[FORM OF ASSIGNMENT]

The following abbreviations, when used in the inscription on the face the within Bond shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	--	as tenants in common	UNIF GIFT MIN ACT--	
TEN ENT	--	as tenants by the entirety	_____ Custodian _____	
JT TEN	--	as joint tenants with right of survivorship and not as tenants in common	(Cust)	(Minor)

under Uniform Gifts to Minors Act of

(State)

Additional abbreviations may also be used though not in the list above.

For value received _____ hereby sells, assigns and transfers unto

INSERT SOCIAL SECURITY OR
OTHER IDENTIFYING NUMBER OF ASSIGNEE

- ---
(Please Print or Typewrite Name and Address of Assignee)

the within Bond of the CITY OF FORSYTH, MONTANA, and hereby irrevocably constitutes and appoints _____ attorney to register the transfer of said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____ Signature: _____

SIGNATURE GUARANTEED:

- ---

NOTICE: Signature(s) must be guaranteed by an "eligible guarantor institution" that is a member of or a participant in a "signature guarantee program" (e.g., the Securities Transfer Agents Medallion Program, the Stock Exchange Medallion Program or the New York Stock Exchange, Inc. Medallion Signature Program).

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

PARS AUCTION PROCEDURES

SECTION 1.01. AUCTION PROCEDURES. While the Bonds bear interest at the PARS Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding (i) each Rate Period commencing after the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System; (ii) each Rate Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) any Rate Period commencing less than two Business Days after the cure of a Payment Default). If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Exhibit B.

SECTION 1.02. ORDERS BY EXISTING OWNERS AND POTENTIAL OWNERS.

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of the PARS Rate Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of the PARS Rate Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of the PARS Rate Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the PARS Rate Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the PARS Rate Bonds, if any, which each such Potential Owner irrevocably

offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) of this subsection (a) is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) of this subsection (a) is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) of this subsection (a) is herein referred to as a "Sell Order."

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the PARS Rate Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the PARS Rate Bonds to be determined as set forth in subsection (a)(v) of Section 1.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the PARS Rate Bonds to be determined as set forth in subsection (b)(iv) of Section 1.05 hereof if such specified rate shall be higher than the Maximum PARS Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the PARS Rate Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the PARS Rate Bonds as set forth in subsection (b)(iv) of Section 1.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the PARS Rate Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the PARS Rate Bonds as set forth in subsection (a)(vi) of Section 1.05 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the PARS Rate Bonds to be held, purchased or sold in a principal amount which is not $25,000 or an integral multiple thereof shall be rounded down to the nearest $25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a PARS Rate Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a PARS Rate Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the Issuer of the occurrence of an Event of Default resulting from a failure to pay principal, premium or interest on any PARS Rate Bond when due (provided however that for purposes of this provision only payment by the Provider of the Credit Facility shall be deemed to cure such Event of Default and no such suspension of the Auction Procedures shall occur) but shall resume two Business Days after the date on which the Auction Agent receives notice from the Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

SECTION 1.03. SUBMISSION OF ORDERS BY BROKER-DEALERS TO AUCTION AGENT.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the PARS Rate Bonds that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the PARS Rate Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the PARS Rate Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the PARS Rate Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the PARS Rate Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the PARS Rate Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the PARS Rate Bonds held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of the PARS Rate Bonds held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of the Outstanding PARS Rate Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of the PARS Rate Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the principal amount of the PARS Rate Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the principal amount of the PARS Rate Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above,

(C) subject to clause (A), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the

amount of the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the principal amount of the PARS Rate Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above, and

(D) the principal amount, if any, of such PARS Rate Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of the PARS Rate Bonds equal to the excess of the principal amount of the PARS Rate Bonds held by such Existing Owner over the sum of the principal amount of the PARS Rate Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the PARS Rate Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of the PARS Rate Bonds specified therein.

(f) Any Bid submitted by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum PARS Rate shall be treated as a Bid specifying the Minimum PARS Rate.

(g) Neither the Company, the Issuer, the Trustee nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

SECTION 1.04. DETERMINATION OF PARS RATE.

(a) Not later than 9:30 a.m., New York, New York time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone of the Minimum PARS Rate, the Maximum PARS Rate and the PARS Index.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission of the Auction Rate for the next succeeding Auction Period.

(d) In the event the Auction Agent shall fail to calculate, or for any reason fail to timely provide the Auction Rate for any Auction Period, the PARS Rate for such Auction Period shall be the applicable No Auction Rate provided, however, that if the Auction Procedures are suspended pursuant to Section 1.02(iv), the PARS Rates for the next succeeding Auction Period shall be the Maximum PARS Rate.

(e) In the event of a failed conversion to a Daily Interest Rate Period, a Weekly Interest Rate Period, a Flexible Interest Rate Period or a Term Interest Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the PARS Rate for the next Auction Period shall be the Maximum PARS Rate and the Auction Period shall be a seven-day Auction Period.

SECTION 1.05. ALLOCATION OF THE PARS RATE BONDS.

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the PARS Rate Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the PARS Rate Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the PARS Rate Bonds obtained by multiplying (A) the aggregate principal amount of the Outstanding PARS Rate Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding PARS Rate Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding PARS Rate Bonds subject to such

Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of the PARS Rate Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the PARS Rate Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the PARS Rate Bonds obtained by multiplying (A) the aggregate principal amount of the Outstanding PARS Rate Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding PARS Rate Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of the Outstanding PARS Rate Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum PARS Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the PARS Rate Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum PARS Rate shall be accepted, thus requiring each such Potential Owner to purchase the PARS Rate Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum PARS Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the PARS Rate Bonds obtained by multiplying (A) the aggregate principal amount of the PARS Rate Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of the Outstanding PARS Rate Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the

denominator of which shall be the principal amount of the Outstanding PARS Rate Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the PARS Rate Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum PARS Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the PARS Rate Bonds which is not an integral multiple of $25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the PARS Rate Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the PARS Rate Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any the PARS Rate Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $25,000 in principal amount of the PARS Rate Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the PARS Rate Bonds for purchase among Potential Owners so that the principal amount of PARS purchased on such Auction Date by any Potential Owner shall be an integral multiple of $25,000, even if such allocation results in one or more of such Potential Owners not purchasing the PARS Rate Bonds on such Auction Date.

SECTION 1.06. NOTICE OF PARS RATE.

(a) On each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the PARS Rate fixed for the succeeding Auction Period or, in the case of PARS Rate Bonds in a daily Auction Period, the PARS Rate on the PARS Rate Bonds fixed for the current Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of the PARS Rate Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the PARS Rate Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the PARS Rate Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the PARS Rate Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of the PARS Rate Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the PARS Rate Bonds to be purchased pursuant to such Bid (including, with respect to the PARS Rate Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such PARS Rate Bond) against receipt of such the PARS Rate Bonds;

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the PARS Rate Bonds to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the PARS Rate for the next succeeding Auction Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the Auction Date of the next succeeding Auction or, in the case of PARS Rate Bonds in a daily Auction Period, the PARS Rate for the current Auction Period; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date of the next succeeding Auction.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b)(ii) above, and any PARS Rate Bonds received by it pursuant to (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date or, in the case of PARS Rate Bonds in a daily Auction Period, on such Auction Date, the Securities Depository shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of PARS Rate Bonds as determined in the Auction.

SECTION 1.07. PARS INDEX.

(a) the PARS Index on any Auction Date with respect to the PARS Rate Bonds in any Auction Period other than a six-month Auction Period shall be the Seven-Day "AA" Composite Commercial Paper Rate on such date. The PARS Index respect to the PARS Rate Bonds in a six-month Auction Period shall be the Six-Month Treasury Bill Rate, as last published in The Bond Buyer. If either rate is unavailable, the PARS Index shall be a rate agreed to by all Broker-Dealers and consented to by the Issuer.

"Seven-Day `AA' Composite Commercial Paper Rate" on any date of determination, means the interest equivalent of the seven-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Goldman, Sachs & Co., Lehman Commercial Paper Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent for the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definitions of Seven-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Seven-Day "AA" Composite Commercial Paper Rate, the Seven-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or Morgan Stanley

Dean Witter or their respective affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer") selected by the Trustee (who shall be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Trustee does not select any such substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

(b) If for any reason on any Auction Date the PARS Index shall not be determined as hereinabove provided in this Section, the PARS Index shall be the PARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the PARS Index as provided herein shall be conclusive and binding upon the Issuer, the Company, the Trustee, the Broker-Dealers, the Auction Agent and the Owners and Beneficial Owners of the PARS Rate Bonds.

SECTION 1.08. MISCELLANEOUS PROVISIONS REGARDING AUCTIONS.

(a) In this Exhibit B, each reference to the purchase, sale or holding of "PARS Rate Bonds" shall refer to beneficial interests in the PARS Rate Bonds, unless the context clearly requires otherwise.

(b) During a PARS Rate Period, the provisions of Section 1.02 hereof and this Exhibit B may be amended pursuant to Section 12.02 of the Indenture by obtaining the consent of the Provider of the Credit Facility and the owners of all Outstanding PARS Rate Bonds bearing interest at the PARS Rates as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the Owners of the Outstanding PARS as required by Section 12.02, (i) Sufficient Clearing Bids have been received or all of the PARS are subject to Submitted Hold Orders, and (ii) there is delivered to the Issuer and the Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the owners of all Outstanding PARS.

(c) During a PARS Rate Period, so long as the ownership of the PARS Rate Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a the PARS Rate Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Master Purchaser's Letter to the Auction Agent, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the PARS Rate Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Owner of such PARS Rate Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this Section 1.08 if such Broker-Dealer remains the Existing Owner of the PARS Rate Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

SECTION 1.09. CHANGES IN AUCTION PERIOD OR AUCTION DATE.

(a) Changes in Auction Period.

(i) During any PARS Rate Period, the Company, may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to the PARS Rate Bonds between daily, seven days, 28 days, 35 days and six months in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such PARS Rate Bonds. The Company shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers, the Provider of the Credit Facility and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven days, 28 days, 35 days or six months and shall be for all of the PARS Rate Bonds in a PARS Rate Period.

(iii) The change in the length of the Auction Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its the PARS Rate Bonds except to the extent such Existing Owner submits an Order with respect to such Bonds. If the condition referred to in the first sentence of this paragraph (iv) is not met, the Auction Rate for the next Auction Period shall be the Maximum PARS Rate, and the Auction Period shall be a seven-day Auction Period.

(v) On the conversion date for the PARS Rate Bonds selected for conversion from one Auction Period to another, any PARS Rate Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any PARS Rate Period, the Auction Agent, with the written consent of the Issuer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the PARS Rate Bonds. The Issuer shall not consent to such change in the Auction Date unless it shall have received from the Auction Agent not less than three days nor more than 20 days prior to the effective date of such change a written request for consent together with a

certificate demonstrating the need for change in reliance on such factors. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Company, the Issuer, the Broker-Dealers and the Securities Depository.

(c) Changes Conditioned on Ratings. Notwithstanding anything herein to the contrary, prior to any change in the duration of an Auction Period, the Trustee shall receive written evidence from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Change of Credit Facility and that such Change of Credit Facility will not, by itself, result in a reduction, suspension or withdrawal of its rating or ratings of the Bonds.

SECTION 1.10. AUCTION AGENT.

(a) The initial Auction Agent shall be IBJ Whitehall Bank & Trust Company, New York, New York, or any successor appointed by the Trustee, at the written direction of the Company, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Issuer, the Trustee, the Company and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the PARS Rate Bonds with the same rights as if such entity were not the Auction Agent.

SECTION 1.11. QUALIFICATIONS OF AUCTION AGENT: RESIGNATION; REMOVAL. The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all of the duties imposed upon it by this Indenture and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least ninety (90) days notice to the Issuer, the Company, the Trustee and the Provider. The Auction Agent may be removed at any time by the Company by written notice, delivered to the Auction Agent, the Company, the Trustee and the Provider. Upon any such resignation or removal, the Trustee shall, at the direction of the Company, appoint a successor Auction Agent meeting the requirements of this Section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and the PARS Rate Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Issuer. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Issuer, the Company, the Trustee and the Provider even if a successor Auction Agent has not been appointed.

EXHIBIT 4(d)-2

CONFORMED COPY

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AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

(364 DAY)

among

AVISTA CORPORATION,

THE BANKS NAMED HEREIN,

TORONTO DOMINION (TEXAS), INC.,

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

and

THE BANK OF NEW YORK

Dated as of June 29, 1999

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References

AMENDMENT AND RESTATEMENT, dated as of June 29, 1999 of the REVOLVING CREDIT AGREEMENT dated as of June 30, 1998, among AVISTA CORPORATION, a Washington corporation (herein called the "Borrower"), the banks listed in Schedule 2.01 (the "Banks"), TORONTO DOMINION (TEXAS), INC., as agent for the Banks (in such capacity, the "Agent"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as syndication agent (the "Syndication Agent") and THE BANK OF NEW YORK, as documentation agent (the "Documentation Agent").

The Borrower has requested that the Banks extend credit to the Borrower in order to enable the Borrower to borrow on a standby revolving credit basis on and after the date hereof, at any time prior to the Expiration Date (as herein defined) a principal amount not in excess of $135,000,000 at any time outstanding (subject to a possible increase to $150,000,000, as provided in Section 2.01(b) below). The proceeds of such borrowings are to be used for general corporate purposes. In consideration of the mutual covenants and agreements contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

Ratings	ABR Spread	Eurodollar Spread	Commitment Fee
Level 1 A- or higher by S&P; and A3 or higher by Moody's	0.00%		.11%
Level 2	0.00%	.625%	.15%

BBB+ by S&P; and Baa1 by Moody's			
Level 3	0.00%	.75%	.20%
BBB by S&P; and Baa2 by Moody's			
Level 4		1.00%	.25%
BBB- by S&P; and Baa3 by Moody's			
Level 5	.50%	1.50%	.375%
Lower than BBB- by S&P; and lower than Baa3 by Moody's			

For purposes of the foregoing, (i) if the Ratings in effect on any date fall in different Levels, the Applicable Rate shall be determined on such date by reference to the superior (numerically lower) Level, unless the Ratings differ by more than one Level, in which case the applicable Level shall be the Level next below the superior (numerically lower) of the two; (ii) if either Moody's or S&P shall not have in effect a Rating (other than because such rating agency shall no longer be in the business of rating corporate debt obligations), then such rating agency will be deemed to have established a Rating in Level 5; and (iii) if any rating established or deemed to have been established by Moody's or S&P shall be changed (other than as a result of a change in the rating system of either Moody's or S&P), such change shall be effective as of the day after the date on which such change is first announced by the rating agency making such change. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of either Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Banks shall negotiate in good faith to amend the references to specific ratings in this definition to reflect such changed rating system or the non- availability of ratings from such rating agency.

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

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

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

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

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

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

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

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

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

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

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

sheet of such person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

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

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

"Closing Date" shall mean the date of this Agreement. "Code" shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Expiration Date" shall mean June 27, 2000.

"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, the Utilization Fee and the Agency Fees.

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

"First Mortgage" shall mean the Mortgage and Deed of Trust dated as of June 1, 1939, made by the Borrower in favor of Citibank, N.A., as successor Trustee, as the same has been amended, modified or supplemented to date and as the same may be further amended, modified or supplemented from time to time hereafter.

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

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

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

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

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

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

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

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

ABR Borrowing, the period commencing on the date of such Borrowing and ending on the earliest of (i) the next succeeding March 31, June 30, September 30 or December 31, (ii) the Expiration Date, and (iii) the date such Borrowing shall be repaid or prepaid in accordance with Section 2.11 and (c) with respect to any Fixed Rate Borrowing or Delayed Fixed Rate Borrowing, the period (which shall not be less than 7 days or more than 360 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Auction Bid Request; provided, however, that if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, encumbrance, charge or security interest in or on such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

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

"Loan Documents" shall mean this Agreement and the Notes.

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

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

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

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

"Notes" shall mean promissory notes of the Borrower, substantially in the form of Exhibit A, evidencing Loans.

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

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

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

"Pre-Restatement Credit Agreement" shall mean the Revolving Credit Agreement (364 day) among The Washington Water Power Company, the banks named therein, Toronto Dominion (Texas), Inc., Bank of America National Trust and Savings Association and the Bank of the New York, dated as of June 30, 1998, as in effect prior to its amendment and restatement hereby.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Subsidiary" shall mean a subsidiary of the Borrower.

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

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

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

(c) any Significant Subsidiary shall:

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

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

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

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

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

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

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

"Utilization Fee", shall have the meaning assigned to such term in Section 2.06.

SECTION 1.02. Terms Generally. The definitions in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall

be construed in accordance with GAAP, as in effect from time to time; provided, however, that, for purposes of determining compliance with any covenant set forth in Article VI, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in preparing the Borrower's audited financial statements referred to in Section 3.05.

SECTION 1.03. Certain Date References. All references herein to "the date hereof" and "the date of this Agreement" shall be deemed references to the date of this Amendment and Restatement.

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 2.10 or (ii) the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans exceeding the total Commitments.

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

(b) On not more than two occasions the Borrower may by written notice to the Administrative Agent cause New Banks (as defined below) to assume Commitments by an aggregate amount not in excess of $15,000,000 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 2.14 in the case of breakage costs and calculated based upon the difference between the Eurodollar Rate applicable to each assigned Revolving Loan and the cost to the New Bank of funding its assigned interests in the case of reverse breakage costs. It is expressly understood that no Bank shall have any obligation to agree to an increase in the amount of the Commitment pursuant to this Section.

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

(b) Subject to Section 2.09, (i) each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans, as the Borrower may request pursuant to Section 2.03, and (ii) each Auction Borrowing shall be comprised entirely of Eurodollar Loans, Fixed Rate Loans or Delayed Fixed Rate Loans as the Borrower may request in accordance with Section 2.04. Each Bank may at its option fulfill its Commitment with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and the applicable Note. Borrowings of more than one Type or Class may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing which, if made, would result in an aggregate of more than five separate Eurodollar Loans of any Bank being outstanding hereunder at any one time. For purposes of the foregoing, Loans having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Loans.

(c) Subject to paragraph (e) below, each Bank shall make a Revolving Loan in the amount of its pro rata portion, as determined under Section 2.15, or, if an Auction Loan, in the relevant amount as determined under Section 2.04, of each Borrowing hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Houston, Texas, not later than 2:00 p.m., New York City time, and the Agent shall by 3:00 p.m., New York City time, make available to the Borrower in immediately available funds the amounts so received (i) by wire transfer for credit to the account of the Borrower with Seattle First National Bank, Account Number 13972-203; ABA # 12500002-4, or (ii) as otherwise specified by the Borrower in its notice of Borrowing or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest

thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower the interest rate applicable at the time to the Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Loan as part of such Borrowing for purposes of this Agreement.

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

(e) The Borrower may refinance all or any part of any Borrowing with a Borrowing of the same or a different Type or Class, subject to the conditions and limitations set forth in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid or prepaid in accordance with Section 2.05 or 2.11, as applicable, with the proceeds of a new Borrowing, and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower pursuant to paragraph (c) above.

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

the Interest Period in effect for such Borrowing, then the Borrower shall (unless such Borrowing is repaid at the end of such Interest Period) be deemed to have given notice of an election to refinance such Borrowing with an ABR Borrowing. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.03 and of each Bank's portion of the requested Borrowing.

SECTION 2.04. Auction Bid Procedure. (a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Auction Bids and may (but shall not have any obligation to) accept Auction Bids and borrow Auction Loans; provided that the sum of the total Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans at any time shall not exceed the total Commitments. To request Auction Bids, the Borrower shall notify the Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 1:00 p.m., New York City time, four Business Days before the date of the proposed Borrowing, in the case of a Fixed Rate Borrowing, not later than 1:00 p.m., New York City time, one Business Day before the date of the proposed Borrowing, or, in the case of a Delayed Fixed Rate Borrowing, not later than 2:00 p.m., New York City time, two Business Days before the date for the proposed Borrowing; provided that the Borrower may submit up to (but not more than) (i) 1 Eurodollar Auction Bid Request and (ii) 1 Fixed Rate Auction Bid Request or 1 Delayed Fixed Rate Auction Bid Request on the same day. Each such telephonic Auction Bid Request shall be confirmed promptly by hand delivery or telecopy to the Agent of a written Auction Bid Request in a form approved by the Agent and signed by the Borrower. Each such telephonic and written Auction Bid Request shall specify the following information in compliance with Section 2.02:

(i) the aggregate amount of the requested Borrowing;

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

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

(iv) the Interest Period (or Interest Periods) to be applicable to such Borrowing, which shall be a

period contemplated by the definition of the term "Interest Period"; and

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

(b) Following receipt of an Auction Bid Request in accordance with this Section, the Agent shall notify the Banks of the details thereof by telecopy, inviting the Banks to submit Auction Bids in the case of a Eurodollar Auction Bid Request, no later than 2:00 p.m., New York City time, four Business Days before the proposed date of the Borrowing, in the case of a Fixed Rate Auction Bid Request, no later than 2:00 p.m., one Business Day before the proposed date of the Borrowing, and, in the case of a Delayed Fixed Rate Bid Request, not later than 3:00 p.m., New York City time, two Business Days before the proposed date of the Borrowing.

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

(d) The Agent shall promptly notify the Borrower by telecopy of the Auction Bid Rate and the principal amount

specified in each Auction Bid and the identity of the Bank that shall have made such Auction Bid.

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

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

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

SECTION 2.05. Notes; Repayment of Loans. The Loans made by each Bank shall be evidenced by a Note, duly executed on behalf of the Borrower, dated the date of this Agreement, in substantially the form attached hereto as Exhibit A, with the blanks appropriately filled, payable to the order of such Bank in a principal amount equal to such Bank's Commitment. The outstanding principal balance of each Revolving Loan and Auction Loan, as evidenced by such a Note, shall be payable on the last day of the Interest Period applicable to such Loan and on the Expiration Date. Each Note shall bear interest from the date of the first borrowing hereunder on the outstanding principal balance thereof as set forth in Section 2.07. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to each Note delivered to such Bank (or on a continuation of such schedule attached to such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Loan from such Bank, each payment and prepayment of principal of any such Loan, each payment of interest on any such Loan and the other information provided for on such schedule; provided, however, that any such recordation shall be conclusive absent manifest error and the failure of any Bank to make such a notation or any error therein shall not affect the obligation of the Borrower to repay the Loans made by such Bank in accordance with the terms of this Agreement and the applicable Notes.

SECTION 2.06. Fees. (a) The Borrower agrees to pay to each Bank, through the Agent, on the first Business Day of January, April, July and October, in each year, and on the date on which the Commitment of such Bank shall be terminated as provided herein, a commitment fee (a "Commitment Fee") on the average daily unused amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Expiration Date or the date on which the Commitment of such Bank shall be terminated); provided, that, for purposes of determining the Commitment Fee, the undrawn portion of the Commitments shall not be deemed to be reduced by the amount of any borrowing under the Auction Facility. The Commitment Fees shall accrue on each day at a rate per annum equal to the Applicable Rate in effect on such day.

All Commitment Fees shall be computed on the basis of the actual number of days elapsed in a year of 365 or 366 days, as appropriate. The Commitment Fee due to each Bank shall commence to accrue on the date of this Agreement and shall cease to accrue on the date on which the Commitment of such Bank shall be terminated as provided herein.

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

(c) The Borrower agrees to pay to the Administrative Agent for the account of each Bank, on the date of this Agreement, a fee of 0.05% on the Commitment of such Bank under the Pre-Restatement Credit Agreement and a fee of 0.10% on any amount by which the Commitment of such Bank exceeds its Commitment under the Pre-Restatement Credit Agreement.

(d) For any day on which the outstanding principal amount of Loans shall be greater than 50% of the total Commitments, the Borrower shall pay to the Administrative Agent for the account of each Bank a utilization fee (a "Utilization Fee") equal to 0.15% per annum on such Bank's Applicable Percentage of the aggregate amount of the outstanding Loans on such day. The Utilization Fees, if any, in respect of any fiscal quarter shall be payable in arrears on each March 31, June 30, September 30 and December 31, on the date on which the Commitments terminate and on any later date on which the Loans are repaid in full; provided, however, that if the Utilization Fee should be payable on a day other than a Business Day, such date of payment shall be extended to the next succeeding Business Day. All Utilization Fees shall be computed on the basis of a year of 365 or 366 days, as appropriate, and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(e) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.07. Interest on Loans. (a) Subject to the provisions of Section 2.08, the Loans comprising each ABR Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or

366 days, as the case may be) at a rate per annum equal to the Alternate Base Rate plus the Applicable Rate.

(b) Subject to the provisions of Section 2.08, the Loans comprising each Eurodollar Borrowing shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) (i) in the case of a Eurodollar Revolving Loan at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate or (ii) in the case of a Eurodollar Auction Loan, at the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Margin applicable to such Loan.

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

SECTION 2.08. Default Interest. If the Borrower shall default in the payment of the principal of or interest on any Loan or any other amount becoming due hereunder, by acceleration or otherwise, the Borrower shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to the Alternate Base Rate plus the Applicable Rate plus 2%.

SECTION 2.09. Alternate Rate of Interest. In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Borrowing the Agent shall have in good faith determined that dollar deposits in the principal amounts of the Loans comprising such Borrowing are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the majority in interest of the Banks of making or maintaining their Eurodollar Loans during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable

thereafter, give written or telecopy notice of such determination to the Borrower and the Banks. In the event of any such determination, (i) any request by the Borrower for a Eurodollar Borrowing pursuant to Section 2.03 shall, until the Agent shall have advised the Borrower and the Banks that the circumstances giving rise to such notice no longer exist, be deemed to be a request for an ABR Borrowing and (ii) any request by the Borrower for a Eurodollar Auction Borrowing shall be ineffective; provided that (A) if the circumstances giving rise to such notice do not affect all the Banks, then requests by Borrower for Eurodollar Auction Borrowings may be made to Banks that are not affected thereby and (B) if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted. Each determination by the Agent hereunder shall be conclusive absent manifest error.

SECTION 2.10. Termination, Reduction and Extension of Commitments. (a) The Commitments shall be automatically terminated on the Expiration Date.

(b) Upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the unused portion of the Commitments; provided, however, that (i) each partial reduction of the Commitments shall be in an integral multiple of $1,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the sum of the Revolving Credit Exposure plus the aggregate principal amount of outstanding Auction Loans would exceed the total Commitments.

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

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

SECTION 2.11. Prepayment. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, upon at least three Business Days' prior written or telecopy notice (or telephone notice promptly confirmed by written or telecopy notice) to the Agent; provided, however, that each partial prepayment shall be in an amount which is an integral multiple of $1,000,000, and that the Borrower shall not have the right to prepay any Auction Loan without the prior consent of the Bank thereof.

(b) On the date of any termination or reduction of the Commitments pursuant to Section 2.10, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Revolving Credit Exposure plus the aggregate principal amount of Auction Loans outstanding will not exceed the aggregate Commitments after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing (or portion thereof) to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing by the amount stated therein on the date stated therein. All prepayments under this Section 2.11 shall be subject to Section 2.14 but otherwise without premium or penalty. All prepayments under this Section 2.11 shall be accompanied by accrued interest on the principal amount being prepaid to the date of payment.

SECTION 2.12. Reserve Requirements; Change in Circumstances. (a) Notwithstanding any other provision herein, if after the date of this Agreement there is adopted any new law, rule or regulation or any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) which shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Bank (except any such reserve requirement which is reflected in the Eurodollar Rate) or shall impose on such Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Bank hereunder or under the Notes (whether of principal, interest

or otherwise) in respect of Eurodollar Loans by an amount deemed by such Bank to be material, then the Borrower will pay to such Bank upon demand such additional amount or amounts as will compensate such Bank for such additional costs incurred or reduction suffered.

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

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

(d) Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any period shall not constitute a waiver of such Bank's right to demand compensation with respect to such period or any other period. The protection of this

Section shall be available to each Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

SECTION 2.13. Change in Legality. (a) Notwithstanding any other provision herein, if any change in, or adoption of, any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for any Bank to make or maintain any Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to any Eurodollar Loan, then, by written notice to the Borrower and to the Agent, such Bank may:

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

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

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

(b) For purposes of this Section 2.13, a notice to the Borrower by any Bank shall be effective as to each Eurodollar Loan, if lawful, on the last day of the Interest Period currently applicable to such Eurodollar Loan.

SECTION 2.14. Indemnity. The Borrower shall indemnify each Bank against any loss or expense which such Bank may sustain or incur as a consequence of (a) any failure by the Borrower to fulfill on the date of any Eurodollar Borrowing hereunder the applicable conditions set forth in Article IV, (b) any failure by the Borrower to borrow or to refinance any Eurodollar Loan hereunder after irrevocable notice of such borrowing or refinancing has been given pursuant to Sections 2.03 and 2.04, (c) any payment or

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

SECTION 2.15. Pro Rata Treatment. Except as required under Sections 2.04 and 2.13, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each payment of the Commitment Fees, each reduction of the Commitments and each refinancing of any Borrowing with a Borrowing of any Type shall be allocated pro rata among the Banks in accordance with their respective applicable Commitments (or, if such Commitments shall have expired or been terminated, in accordance with the respective principal amounts of their outstanding Loans). Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing, computed in accordance with Section 2.01, to the next higher or lower whole dollar amount.

SECTION 2.16. Sharing of Setoffs. Each Bank agrees that if it shall, through the exercise of a right of

banker's lien, setoff or counterclaim against the Borrower, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Bank under any applicable bankruptcy, insolvency or other similar law or otherwise, or by any other means, obtain payment (voluntary or involuntary) in respect of any Revolving Loan or Revolving Loans as a result of which the unpaid principal portion of its Revolving Loans shall be proportionately less than the unpaid principal portion of the Revolving Loans of any other Bank, it shall be deemed simultaneously to have purchased from such other Bank at face value, and shall promptly pay to such other Bank the purchase price for, a participation in the Revolving Loans of such other Bank, so that the aggregate unpaid principal amount of the Revolving Loans and participations in Revolving Loans held by each Bank shall be in the same proportion to the aggregate unpaid principal amount of all Revolving Loans then outstanding as the principal amount of its Revolving Loans prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Revolving Loans outstanding prior to such exercise of banker's lien, setoff or counter-claim or other event; provided, however, that, if any such purchase or purchases or adjustments shall be made pursuant to this Section and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding a participation in a Revolving Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim with respect to any and all moneys owing by the Borrower to such Bank by reason thereof as fully as if such Bank had made a Loan directly to the Borrower in the amount of such participation.

SECTION 2.17. Payments. (a) The Borrower shall make each payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder and under any other Loan Document not later than 12:00 (noon), New York City time, on the date when due in dollars to the Agent at its offices at 909 Fanning, Suite 1700, Houston, Texas, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Borrowing or any Fees or other amounts) hereunder or under any other Loan Document shall become due, or otherwise would occur, on a day that is not a Business

Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

SECTION 2.18. Taxes. (a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 2.17, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on the net income of the Agent or any Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent or any Bank (or Transferee) by the United States or any jurisdiction under the laws of which the Agent or any such Bank (or such Transferee) or the applicable lending office, is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.18) such Bank (or such Transferee) or the Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law; provided, however, that no Transferee of any Bank shall be entitled to receive any greater payment under this paragraph (a) than such Bank would have been entitled to receive with respect to the rights assigned, participated or other wise transferred unless such assignment, participation or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist.

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

(c) The Borrower will indemnify each Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or such Transferee)or the Agent, as the case may be, and any liability (including penalties, interest and reasonable expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section 2.18, it shall promptly notify the Borrower of such refund and shall repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section 2.18 with respect to such refund) within 30 days (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), net of all reasonable out-of-pocket expenses of such Bank and without interest; provided that the Borrower, upon the request of such Bank (or such Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank (or such Transferee) or the Agent in the event such Bank (or such Transferee) or the Agent is required to repay such refund. Nothing contained in this paragraph (c) shall require any Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes which it deems to be confidential); provided that Borrower, at its expense, shall have the right to receive an opinion from a firm of independent public accountants of recognized national standing acceptable to the Borrower that the amount due hereunder is correctly calculated.

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

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.18 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) On or prior to the execution of this Agreement and on or before the transfer to a Transferee, the Agent shall notify the Borrower of each Bank's (or Transferee's) address. On or prior to the Bank's (or Transferee's) first Interest Payment Date, and from time to time as required by law, each Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, deliver to the Borrower and the Agent such certificates, documents or other evidence, as required by the Code or Treasury Regulations issued pursuant thereto, including Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax, or subject to a reduced rate of such tax under a provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under the Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower shall withhold taxes from such payments at the applicable statutory rate.

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

SECTION 2.19. Termination or Assignment of Commitments Under Certain Circumstances. (a) Any Bank (or Transferee) claiming any additional amounts payable pursuant to Section 2.12 or Section 2.18 or exercising its rights under Section 2.13 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the sole determination of such Bank, be otherwise disadvantageous to such Bank (or Transferee). (b) In the event that any Bank shall have delivered a notice or certificate pursuant to Section 2.12 or 2.13, or the Borrower shall be required to make additional payments under Section 2.18 to any Bank (or Transferee) or to the Agent with respect to any Bank (or Transferee), the Borrower shall have the right, at its own expense, upon notice to such Bank (or Transferee) and the Agent (a) to terminate the Commitment of such Bank (or Transferee) or (b) to require such Bank (or Transferee) to transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.04) all its interests, rights and obligations under this Agreement (other than any outstanding Auction Loans) to another financial institution which shall assume such obligations; provided that (i) no such termination or assignment shall conflict with any law, rule or regulation or order of any Governmental Authority and (ii) the Borrower or the assignee, as the case may be, shall pay to the affected Bank (or Transferee) in immediately available funds on the date of such termination or assignment the principal of and interest accrued to the date of payment on the Loans made by it hereunder and all other amounts accrued for its account or owed to it hereunder.

ARTICLE III. REPRESENTATIONS AND WARRANTIES

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

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

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

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

SECTION 3.03. Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and

delivered by the Borrower will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms.

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

SECTION 3.05. Financial Statements. The Borrower has heretofore furnished to the Banks its consolidated balance sheets and statements of income and statements of cash flow as of and for the fiscal year ended December 31, 1998, audited by and accompanied by the opinion of Deloitte & Touche, independent public accountants. Such financial statements present fairly the financial condition and results of operations of the Borrower and its consolidated subsidiaries as of such dates and for such periods. Such balance sheets and the notes thereto, together with the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, 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, 1998 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1999, 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, 1998, 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, 1998, or in any document filed prior to the date of this Agreement pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, there are not any actions, suits or proceedings at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any business, property or rights of any such person (i) which involve any Loan Document or the Transactions or (ii) which could reasonably be anticipated,

individually or in the aggregate, to result in a Material Adverse Effect.

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

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

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

SECTION 3.09. Investment Company Act; Public Utility Holding Company Act. The Borrower is not (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) subject to regulation as a "holding company" under the Public Utility Holding Company Act of 1935.

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

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

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

SECTION 3.13. Environmental and Safety Matters. Each of the Borrower and each Subsidiary has complied with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental or nuclear regulation or control or to employee health or safety, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. Neither the Borrower nor any Subsidiary has received notice of any failure so to comply, except where noncompliance would not be reasonably likely to result in a Material Adverse Effect. The Borrower's and the Subsidiaries' plants do not manage any hazardous wastes, hazardous substances, hazardous materials, toxic substances, toxic pollutants or substances similarly denominated, as those terms or similar terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act, the Clean Water Act or any other applicable law relating to environmental pollution or employee health and safety, or any nuclear fuel or other radioactive materials, in violation of any law or any regulations promulgated pursuant thereto, where such violation would be reasonably likely to result in a Material Adverse Effect. The Borrower is aware of no events, conditions or circumstances involving environmental pollution or contamination or employee health or safety that could reasonably be expected to result in a Material Adverse Effect. The representations and warranties set forth in this Section 3.13 are, however, subject to any matters, circumstances or events set forth in the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and in the Borrower's Form 10-Q for the fiscal quarter ended March 31, 1999; 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, 1998 or the

Borrower's Form 10-Q for the fiscal quarter ended March 31, 1999) shall not be construed to mean that the Borrower has concluded that any such matter, circumstance or effect is likely to result in a Material Adverse Effect.

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

SECTION 3.15. Year 2000 Compliance. The Borrower and each Significant Subsidiary has a) initiated a review and assessment of all areas within its and each of its Significant Subsidiaries' business and operations (including those mission critical suppliers and vendors) that could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications used by the Borrower or any of its Significant Subsidiaries may be unable to recognize and perform properly date-sensitive functions involving certain dates prior to and any date after December 31, 1999) and (b) developed a plan and timeline for addressing the Year 2000 Problem on a timely basis, and, as of the date of this Agreement, is implementing that plan in accordance with that timetable. The Borrower and each Significant Subsidiary reasonably believes that all computer applications that are material to its or any of its Significant Subsidiaries' business and operations will on a timely basis be able to perform properly date-sensitive functions for all dates before and after January 1, 2000 (that is, be "Year 2000 Compliant"), except to the extent that a failure to do so could not reasonably be expected to have a Material Adverse Effect.

ARTICLE IV. CONDITIONS OF LENDING

The obligations of the Banks to make Loans hereunder are subject to the satisfaction of the following conditions:

SECTION 4.01. All Borrowings. On the date of each Borrowing, including each Borrowing in which Loans are refinanced with new Loans as contemplated by Section 2.02(e):

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

(b) The representations and warranties set forth in Article III hereof (except, in the case of a refinancing of Loans that does not increase the sum of the Revolving Credit Exposure and the Auction Loans of

any Bank outstanding, the representations set forth in Sections 3.06 and 3.07) shall be true and correct in all material respects on and as of the date of such Borrowing with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.

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

Each Borrowing shall be deemed to constitute a representation and warranty by the Borrower on the date of such Borrowing as to the matters specified in paragraphs (b) and (c) of this Section 4.01.

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

(a) Each Bank shall have received a duly executed Note complying with the provisions of Section 2.05.

(b) The Agent shall have received a favorable written opinion of Paine, Hamblen, Coffin, Brooke & Miller, counsel for 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.

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

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

(e) The Agent shall have received (i) a copy of the certificate or articles of incorporation, including

all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State of the state of its organization, and a certificate as to the good standing of the Borrower as of a recent date, from such Secretary of State; (ii) a certificate of the Secretary or Assistant Secretary of the Borrower dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of the Borrower as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in clause (B) below, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of the Borrower authorizing the execution, delivery and performance of the Loan Documents and the borrowings hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the certificate or articles of incorporation of the Borrower have not been amended since the date of the last amendment thereto shown on the certificate of good standing furnished pursuant to clause (i) above, and (D) as to the incumbency and specimen signature of each officer executing any Loan Document or any other document delivered in connection herewith on behalf of the Borrower; (iii) a certificate of another officer as to the incumbency and specimen signature of the Secretary or Assistant Secretary executing the certificate pursuant to (ii) above; and (iv) such other documents as the Banks or their counsel or Cravath, Swaine & Moore, counsel for the Agent, may reasonably request.

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

(g) The Agent shall have received all Fees and other amounts due and payable on or prior to the date of this Agreement, including all Fees accrued to the date hereof under the Pre-Restatement Credit Agreement.

ARTICLE V. AFFIRMATIVE COVENANTS

The Borrower covenants and agrees with each Bank that so long as this Agreement shall remain in effect or the

principal of or interest on any Loan, any Fees or any other expenses or any amounts payable under any Loan Document shall be unpaid, unless the Required Banks shall otherwise consent in writing, the Borrower will:

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

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

SECTION 5.02. Insurance. (a) Maintain insurance, to such extent and against such risks, as is customary with companies in the same or similar businesses and owning similar properties in the same general area in which the

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

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

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

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

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

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

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

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

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

SECTION 5.05. Litigation and Other Notices. Furnish to the Agent and each Bank prompt written notice of the following:

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

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

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

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

SECTION 5.07. Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any representatives designated by any Bank to visit and inspect the financial records and the properties of the Borrower at reasonable times and as often as requested and to make extracts from

and copies of such financial records, and permit any representatives designated by any Bank to discuss the affairs, finances and condition of the Borrower with the chief financial officer of the Borrower, or other person designated by the chief financial officer, and independent accountants therefor.

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

ARTICLE VI. NEGATIVE COVENANTS

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

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

(a) Liens on property or assets of the Borrower created by the documents, instruments or agreements existing on the date hereof and which are listed as exhibits to the Borrower's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, to the extent that such Liens secure only obligations arising under such existing documents, agreements or instruments;

(b) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition and (ii) such Lien does not apply to any other property or assets of the Borrower;

(c) the Lien of the First Mortgage;

(d) Liens permitted under the First Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the First Mortgage) and any other Liens to which the Lien of the First Mortgage is expressly made subject;

(e) the Lien of any collateral trust mortgage or similar instrument which would be intended to eventually replace (in one transaction or a series of transactions) the First Mortgage (as amended, modified or supplemented from time to time, "Collateral Trust Mortgage") on properties or assets of the Borrower to secure bonds, notes and other obligations of the Borrower; provided that, so long as the First Mortgage shall constitute a Lien on properties or assets of the Borrower, the bonds, notes or other obligations issued under the Collateral Trust Mortgage (i) shall also be secured by an equal principal amount of bonds issued under the First Mortgage or (ii) shall be issued against property additions not subject to the Lien of the First Mortgage;

(f) Liens permitted under the Collateral Trust Mortgage (whether or not such permitted Liens cover properties or assets subject to the Lien of the Collateral Trust Mortgage) and any other Liens to which the Lien of the Collateral Trust Mortgage is subject;

(g) Liens for taxes, assessments or governmental charges not yet due or which are being contested in compliance with Section 5.03;

(h) carriers', warehousemen's, mechanic's, materialmen's, repairmen's or other like Liens arising in the ordinary course of business and securing obligations that are not due or which are being contested in compliance with Section 5.03;

(i) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations;

(j) Liens incurred or created in connection with or to secure the performance of bids, tenders, trade contracts (other than for Indebtedness), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(k) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and do not materially detract from the value

of the property subject thereto or interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(l) Liens (i) which secure obligations not assumed by the Borrower, (ii) on account of which the Borrower has not and does not expect to pay interest directly or indirectly and (iii) which exist upon real estate or rights in or relating to real estate in respect of which the Borrower has a right-of-way or other easement for purposes of substations or transmission or distribution facilities;

(m) rights reserved to or vested in any federal, state or local governmental body or agency by the terms of any right, power, franchise, grant, license, con tract or permit, or by any provision of law, to recapture or to purchase, or designate a purchase of or order the sale of, any property of the Borrower or to terminate any such right, power, franchise, grant, license, contract or permit before the expiration thereof;

(n) Liens of judgments covered by insurance, or upon appeal and covered by bond, or to the extent not so covered not exceeding at one time $10,000,000 in aggregate amount;

(o) any Liens, moneys sufficient for the discharge of which shall have been deposited in trust with the trustee or mortgagee under the instrument evidencing such Lien, with irrevocable authority of such trustee or mortgagee to apply such moneys to the discharge of such Lien to the extent required for such purpose;

(p) rights reserved to or vested in any federal, state or local governmental body or agency or other public authority to control or regulate the business or property of the Borrower;

(q) any obligations or duties, affecting the property of the Borrower to any federal, state or local governmental body or agency or other public authority with respect to any authorization, permit, consent or license of such body, agency or authority, given in connection with the purchase, construction, equipping, testing and operation of the Borrower's utility property;

(r) with respect to any property which the Borrower may hereafter acquire, any exceptions or reservations therefrom existing at the time of such acquisition or any terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in the deeds of other instruments, respectively, under and by virtue of which the Borrower shall hereafter acquire the same, none of which materially impairs the use of such property for the purposes for which it is acquired by the Borrower;

(s) leases and subleases entered into in the ordinary course of business;

(t) banker's Liens and other Liens in the nature of a right of setoff;

(u) Liens resulting from any transaction permitted under Section 6.03(v);

(v) renewals, replacements, amendments, modifications, supplements, refinancings or extensions of Liens set forth above to the extent that the principal amount of Indebtedness secured by such Lien immediately prior thereto is not increased and such Lien is not extended to other property (it being understood that such limitation does not apply to the Liens described in subsection (c), (e) or (u) above);

(w) security deposits or amounts paid into trust funds for the reclamation of mining properties;

(x) restrictions on transfer or use of properties and assets, first rights of refusal, and rights to acquire properties and assets granted to others;

(y) non-consensual equitable Liens on the Borrower's tenant-in-common or other interest in joint projects;

(z) Liens on the Borrower's tenant-in-common or other interest in joint projects incurred by the project sponsor without the express consent of the Borrower to such incurrence;

(aa) cash collateral contemplated under Section 2.06(i) of the $125,000,000 Revolving Credit Agreement (3 Years) dated as of June 30, 1998 between Avista Corporation (formerly The Washington Water Power Company), Toronto Dominion (Texas), Inc., and the banks named therein; and

(ab) Liens not expressly permitted in clauses (a) through (aa) of this Section 6.01 to secure Indebtedness of the Borrower, provided that the aggregate outstanding principal amount of the Indebtedness so secured does not at any one time exceed 5% of the total assets of the Borrower and its Subsidiaries, computed and consolidated in accordance with GAAP consistently applied.

SECTION 6.02. Mergers, Consolidations and Acquisitions. Merge into or consolidate with any other person, or permit any other person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other person) other than acquisitions in the ordinary course of the Borrower's business, except that if (A) at the time thereof and immediately after giving effect thereto no Event of Default or Default shall have occurred and be continuing and (B) in the case of any merger or consolidation involving the Borrower in which the Borrower is not the surviving corporation, the surviving corporation shall assume in writing the obligations of the Borrower under this Agreement and any other Loan Documents, then (a) the Borrower may merge or consolidate with any Subsidiary in a transaction in which the Borrower is the surviving corporation, (b) the Borrower may purchase, lease or otherwise acquire from any Subsidiary all or substantially all of its assets and may purchase or otherwise acquire all or substantially all of the capital stock of any person who immediately thereafter is a Subsidiary,(c) the Borrower may merge with or into, or consolidate with, any other person so long as (i) in the case where the business of such other person, or an Affiliate of such other person, entirely or primarily consists of an electric or gas utility business, the senior secured long-term debt rating of the Borrower shall be at least BBB or higher by S&P and Baa2 or higher by Moody's immediately after such merger or consolidation, or in the case of a merger or consolidation in which the Borrower is not the surviving entity, the senior secured long-term debt rating of the surviving entity or an Affiliate thereof shall be at least BBB+ or higher by S&P and Baa1 or higher by Moody's immediately after such merger or consolidation, or (ii) in the case where such other person's business does not entirely or primarily consist of an electric or gas utility

business, the assets of such person at the time of such consolidation or merger do not exceed 10% of the total assets of the Borrower and its Subsidiaries after giving effect to such merger or consolidation, computed and consolidated in accordance with GAAP consistently applied, and (d) the Borrower may purchase, lease or otherwise acquire any or all of the assets of any other person (and may purchase or otherwise acquire the capital stock of any other person) so long as (i) the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) entirely or primarily consist of electric or gas utility assets or (ii) in the case where the assets being purchased, leased or acquired (or the assets of the person whose capital stock is being acquired) do not entirely or primarily consist of electric or gas utility assets, the assets being acquired (or the Borrower's proportionate share of the assets of the person whose capital stock is being acquired) do not exceed 10% of the total assets of the Borrower and its Subsidiaries, after giving effect to such acquisition, computed and consolidated in accordance with GAAP consistently applied.

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

Bonneville Power Administration, as the same may be amended, modified or supplemented from time to time, (iv) the Borrower may sell, lease, transfer, assign or otherwise dispose of its interests in the Colstrip and Centralia Projects and related assets and (v) the Borrower may sell, lease, transfer, assign or otherwise dispose (including by way of capital contribution) of, or create, incur, assume or permit to exist Liens on, receivables and related properties or interests therein.

ARTICLE VII. EVENTS OF DEFAULT

In case of the happening (and during the continuance) of any of the following events ("Events of Default"):

(a) any representation or warranty made or deemed made in or in connection with any Loan Document or the borrowings hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished in connection with or pursuant to any Loan Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or any Fee or any other amount (other than an amount referred to in (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in Section 5.01(a) or 5.05 or in Article VI;

(e) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in any Loan Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied for a period of

30 days after notice thereof from the Agent or any Bank to the Borrower;

(f) the Borrower or any Significant Subsidiary shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebted ness when the aggregate unpaid principal amount is in excess of $25,000,000, when and as the same shall become due and payable (after expiration of any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement (after expiration of any applicable grace period) contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity; (g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any Significant Subsidiary, or of a substantial part of the property or assets of the Borrower or a Significant Subsidiary, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or a Significant Subsidiary or (iii) the winding-up or liquidation of the Borrower or any Significant Subsidiary; and such proceeding or petition shall continue undismissed, or an order or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days;

(h) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above, (iii) apply for or

consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any Significant Subsidiary or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (vii) take any action for the purpose of effecting any of the foregoing;

(i) a final judgment or judgments shall be rendered against the Borrower, any Significant Subsidiary or any combination thereof for the payment of money with respect to which an aggregate amount in excess of $25,000,000 is not covered by insurance and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of the Borrower or any Significant Subsidiary to enforce any such judgment;

(j) a Reportable Event or Reportable Events, or a failure to make a required installment or other payment (within the meaning of Section 412(n)(l) of the Code), shall have occurred with respect to any Plan or Plans that reasonably could be expected to result in liability of the Borrower to the PBGC or to a Plan in an aggregate amount exceeding $25,000,000 and, within 30 days after the reporting of any such Reportable Event to the Agent or after the receipt by the Agent of the statement required pursuant to Section 5.06, the Agent shall have notified the Borrower in writing that (i) the Required Banks have made a determination that, on the basis of such Reportable Event or Reportable Events or the failure to make a required payment, there are reasonable grounds (A) for the termination of such Plan or Plans by the PBGC, (B) for the appointment by the appropriate United States District Court of a trustee to administer such Plan or Plans or (C) for the imposition of a lien in favor of a Plan and (ii) as a result thereof an Event of Default exists hereunder; or a trustee shall be appointed by a United States District Court to administer any such Plan or Plans; or the PBGC shall institute proceedings to terminate any Plan or Plans;

(k) there shall occur a Subsidiary Event; or

(l) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in paragraph (g) or (h) above), and at any time thereafter during the continuance of such event, the Agent, at the request of the Required Banks, shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon (A) the Commitments will automatically be terminated and (B) the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; and in any event with respect to the Borrower described in paragraph (g) or (h) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding.

ARTICLE VIII. THE AGENT

In order to expedite the various transactions contemplated by this Agreement, Toronto Dominion (Texas), Inc. is hereby appointed to act as Agent on behalf of the Banks. Each of the Banks hereby irrevocably authorizes and directs the Agent to take such action on behalf of such Bank under the terms and provisions of this Agreement, and to exercise such powers hereunder as are specifically delegated to or required of the Agent by the terms and provisions hereof, together with such powers as are reasonably incidental thereto. The Agent is hereby expressly authorized on behalf of the Banks, without hereby limiting any implied authority, (a) to receive on behalf of each of the Banks any payment of principal of or interest on the

Loans outstanding hereunder and all other amounts accrued hereunder paid to the Agent, and to distribute to each Bank its proper share of all payments so received as soon as practicable; (b) to give notice promptly on behalf of each of the Banks to the Borrower of any event of default specified in this Agreement of which the Agent has actual knowledge acquired in connection with its agency hereunder; and (c) to distribute promptly to each Bank copies of all notices, agreements and other material as provided for in this Agreement as received by such Agent.

Neither the Agent nor any of its directors, officers, employees or agents shall be liable to any Bank as such for any action taken or omitted by any of them hereunder except for its or his own gross negligence or wilful misconduct, or be responsible for any statement, warranty or representation herein or the contents of any document delivered in connection herewith or be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants or agreements of this Agreement. The Agent shall not be responsible to the Banks for the due execution, genuineness, validity, enforceability or effectiveness of this Agreement or any other instrument to which reference is made herein. The Agent shall in all cases be fully protected in acting, or refraining from acting, in accordance with written instructions signed by the Required Banks, and, except as otherwise specifically provided herein, such instructions and any action taken or failure to act pursuant thereto shall be binding on all the Banks. The Agent shall, in the absence of knowledge to the contrary, be entitled to rely on any paper or document believed by it in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Neither the Agent nor any of its directors, officers, employees or agents shall have any responsibility to the Borrower on account of the failure or delay in performance or breach by any Bank of any of its obligations hereunder or to any Bank on account of the failure of or delay in performance or breach by any other Bank or the Borrower of any of their respective obligations hereunder or in connection herewith. The Agent may execute any and all duties hereunder by or through agents or employees and shall be entitled to advice of legal counsel selected by it with respect to all matters arising hereunder and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

The Agent and its affiliates may accept deposits from, lend money to and generally engage in any kind of

business with the Borrower or other affiliate thereof as if it were not the Agent.

Each Bank recognizes that applicable laws, rules, regulations or guidelines of governmental authorities may require the Agent to determine whether the transactions contemplated hereby should be classified as "highly lever aged" or assigned any similar or successor classification, and that such determination may be binding upon the other Banks. Each Bank understands that any such determination shall be made solely by the Agent based upon such factors (which may include, without limitation, the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agrees that the Agent shall have no liability for the consequences of any such determination.

Each Bank agrees (i) to reimburse the Agent in the amount of such Bank's pro rata share (based on its Commitment hereunder) of any expenses incurred for the benefit of the Banks by the Agent, including reasonable counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, not reimbursed by the Borrower and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees or agents, on demand, in the amount of its pro rata share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against it in its capacity as the Agent or any of them in any way relating to or arising out of this Agreement or any action taken or omitted by it or any of them under this Agreement, to the extent not reimbursed by the Borrower; provided, however, that no Bank shall be liable to the Agent for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or wilful misconduct of the Agent or any of its directors, officers, employees or agents.

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

upon this Agreement, any related agreement or any document furnished hereunder.

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

The Documentation Agent and the Syndication Agent shall not have any rights, powers, obligations, liabilities, responsibilities or duties under this Agreement other than those applicable to all Banks as such. Without limiting the foregoing, none of the Banks identified as "Documentation Agent" or "Syndication Agent" shall have or be deemed to have any fiduciary relationship with any Bank. Each Bank acknowledges that it has not relied, and will not rely, on any of the Banks so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE IX. MISCELLANEOUS

SECTION 9.01. Notices. Notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed or sent by telecopy, graphic scanning or other telegraphic communications equipment of the sending party, as follows:

(a) if to the Borrower, to it at East 1411 Mission Avenue (99202), P.O. Box 3727, Spokane, Washington 99220, Attention of the Senior Vice President, Chief Financial Officer and Treasurer (Telecopy No. 509-482-4879);

(b) if to the Agent, to it at 909 Fannin, Suite 1700, Houston, Texas 77010, Attention of Kimberly Burleson (Telecopy No. 713-951-9921); and

(c) if to a Bank, to it at its address (or telecopy number) set forth in Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Bank shall have become a party hereto.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by telecopy or other telegraphic communications equipment of the sender, or on the date five Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 9.01 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 9.01.

SECTION 9.02. Survival of Agreement. All covenants, agreements, representations and warranties, including, without limitation, any indemnities and reimbursement obligations, made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the Banks and shall survive the making by the Banks of the Loans, and the execution and delivery to the Banks of the Notes evidencing such Loans, regardless of any investigation made by the Banks, or on their behalf, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any Fee or any other amount payable under this Agreement or any other Loan Document is outstanding and unpaid and so long as the Commitments have not been terminated.

SECTION 9.03. Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have received copies hereof which, when taken together, bear the signatures of each Bank, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior consent of all the Banks.

SECTION 9.04. Successors and Assigns. (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and permitted assigns.

(b) Each Bank (including the Agent when acting as a Bank) may assign to one or more assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment and the same portion of the applicable Loan or Loans at the time owing to it and the applicable Note or Notes held by it, other than any Auction Loans or Notes held by it, which may, but need not, be assigned); provided, however, that (i) except in the case of an assignment to a Bank or an Affiliate of such Bank, the Borrower and the Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) that no assignee of any Bank shall be entitled to receive any greater payment or protection under Sections 2.12, 2.13(a), 2.14 or 2.18 than such Bank would have been entitled to receive with respect to the rights assigned or otherwise transferred unless such assignment or transfer shall have been made at a time when the circumstances giving rise to such greater payment did not exist, (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement, except that this clause (iii) shall not apply to rights in respect of outstanding Auction Loans, (iv) the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than $5,000,000 (or, if less, the total amount of their Commitments), (v) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or Notes subject to such assignment and a processing and recordation fee of $5,000 and (vi) the assignee, if it shall not be a Bank, shall deliver to the Agent an Administrative Questionnaire. Upon acceptance and recording pursuant to paragraph (e) of this Section 9.04, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.12, 2.14, 2.18 and 9.05, as

well as to any Fees accrued for its account and not yet paid).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of the Borrower or any Subsidiary or the performance or observance by the Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.04 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) The Agent shall maintain a copy of each Assignment and Acceptance delivered to it including the recordation of the names and addresses of the Banks, and the

Commitment of, and principal amount of the Loans owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The Agent and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note or Notes subject to such assignment, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) above and, if required, the written consent of the Borrower and the Agent to such assignment, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered Note or Notes, a new Note or Notes to the order of such assignee in a principal amount equal to the applicable Commitment assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained a Commitment, a new Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Note or Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it and the Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other entities shall be entitled to the benefit of the cost protection provisions contained in Sections 2.12, 2.14 and 2.18 to the same extent as if they were Banks (provided, that the amount of such benefit shall be limited to the amount in respect of the interest sold to which the seller of such participation

would have been entitled had it not sold such interest) and (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, and such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement (other than amendments, modifications or waivers decreasing any fees payable hereunder or the amount of principal of or the rate at which interest is payable on the Loans, extending any scheduled principal payment date or date fixed for the payment of interest on the Loans or changing or extending the Commitments).

(g) Any Bank or participant may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.04, disclose to the assignee or participant or proposed assignee or participant any information relating to the Borrower furnished to such Bank by or on behalf of the Borrower; provided that, prior to any such disclosure of information designated by the Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information.

(h) 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 the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

(j) Subject to Section 6.02, the Borrower shall not assign or delegate any of its rights or duties hereunder.

SECTION 9.05. Expenses; Indemnity. (a) The Borrower agrees to pay all reasonable out-of-pocket expenses incurred by the Agent in connection with the preparation of this Agreement and the other Loan Documents or in connection with any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions hereby contemplated shall be consummated) or incurred by the Agent or any Bank in connection with the enforcement or protection of their rights in connection with this Agreement and the other Loan Documents or in connection with the Loans made or the Notes issued hereunder, including the fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent, and, in connection with any such amendment, modification or waiver or any such enforcement or protection, the fees, charges and disbursements of any other internal or external counsel for the Agent or any Bank. The Borrower further agrees that it shall indemnify the Banks from and hold them harmless against any documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any of the other Loan Documents.

(b) The Borrower agrees to indemnify the Agent and each Bank and each of their respective directors, officers, employees and agents (each such person being called an "Indemnitee") against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective

obligations thereunder or the consummation of the Transactions and the other transactions contemplated thereby, (ii) the use of the proceeds of the Loans or (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

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

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

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

SECTION 9.08. Waivers; Amendment. (a) No failure or delay of the Agent or any Bank in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to

enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Agent and the Banks hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies which they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Banks; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each holder of a Note affected thereby, (ii) change or extend the Commitment or decrease the Commitment Fees of any Bank without the prior written consent of such Bank, or (iii) amend or modify the provisions of Section 2.15, the provisions of this Section or the definition of "Required Banks", without the prior written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Agent hereunder without the prior written consent of the Agent. Each Bank and each holder of a Note shall be bound by any waiver, amendment or modification authorized by this Section regardless of whether its Note shall have been marked to make reference thereto, and any consent by any Bank or holder of a Note pursuant to this Section shall bind any person subsequently acquiring a Note from it, whether or not such Note shall have been so marked.

SECTION 9.09. Interest Rate Limitation. Notwithstanding anything herein or in the Notes to the contrary, if at any time the applicable interest rate, together with all fees and charges which are treated as interest under applicable law (collectively the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken or reserved by any Bank, shall exceed the

maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by such Bank in accordance with applicable law, the rate of interest payable under the Note held by such Bank, together with all Charges payable to such Bank, shall be limited to the Maximum Rate.

SECTION 9.10. Entire Agreement. This Agreement and the other Loan Documents constitute the entire contract between the parties relative to the subject matter hereof. Any previous agreement among the parties with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

SECTION 9.11. Waiver of Jury Trial. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Agreement or any of the other Loan Documents. Each party hereto (a) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and the other Loan Documents, as applicable, by, among other things, the mutual waivers and certifications in this Section 9.11.

SECTION 9.12. Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.13. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together

shall constitute but one contract, and shall become effective as provided in Section 9.03.

SECTION 9.14. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

SECTION 9.15. Jurisdiction; Consent to Service of Process. (a) The Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or Federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Agent or any Bank may otherwise have to bring any action or proceeding relating to this Agreement or the other Loan Documents against the Borrower or its properties in the courts of any jurisdiction.

(b) The Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this agreement or the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

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

AVISTA CORPORATION,

by

/s/ Jon E. Eliassen

Name: Jon E. Eliassen
Title: Senior Vice President
and Chief Financial Officer

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

by

/s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Vice President

THE BANK OF NEW YORK, as Documentation Agent,

by

/s/ Trisha E. Hardy

Name: Trisha E. Hardy
Title: Assistant Treasurer

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Syndication Agent,

by

/s/ Gary M. Tsuyuki

Name: Gary M. Tsuyuki
Title: Managing Director

TORONTO DOMINION (TEXAS), INC.,

by

/s/ Jeffery R. Lents

Name: Jeffery R. Lents
Title: Vice President

THE BANK OF NEW YORK,

by

/s/ Trisha E. Hardy

Name: Trisha E. Hardy
Title: Assistant Treasurer

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,

by

/s/ Gary M. Tsuyuki

Name: Gary M. Tsuyuki
Title: Managing Director

THE BANK OF NOVA SCOTIA

by
/s/ Daryl K. Hogge

Name: Daryl K. Hogge
Title: Officer

FIRST SECURITY BANK, N.A.,

by
/s/ Brian W. Cook

Name: Brian W. Cook
Title: Vice President

MORGAN GUARANTY TRUST COMPANY OF NEW YORK,

by
/s/ Robert Bottamedi

Name: Robert Bottamedi
Title: Vice President

MELLON BANK, N.A.,

by
/s/ Mark W. Rogers

Name: Mark W. Rogers
Title: Vice President

U.S. BANK, NATIONAL ASSOCIATION,

by
/s/ Wilfred C. Jack

Name: Wilfred C. Jack
Title: Vice President

WACHOVIA BANK, N.A.,

by

/s/ Jessica S. Wright

Name: Jessica S. Wright
Title: Vice President

WELLS FARGO BANK, N.A.,

by
/s/ Tom Beil

Name: Tom Beil
Title: Vice President

EXHIBIT A

[FORM OF]

NOTE

$_____ [ ], 1999
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 Fanning, Suite 1700, Houston, Texas 77010, (i) on the last day of each Interest Period, as defined in the $135,000,000 Amended and Restated Revolving Credit Agreement dated as of June 29, 1999 (the "Credit Agreement"), among the Borrower, the Banks named therein and the Agent, the aggregate unpaid principal amount of all Loans (as defined in the Credit

Agreement) made to the Borrower by the Bank pursuant to the Credit Agreement to which such Interest Period applies and (ii) on the Expiration Date (as defined in the Credit Agreement) the lesser of the principal sum of _____ Dollars ($_____) and the aggregate unpaid principal amount of all Loans made to the Borrower by the Bank pursuant to the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date hereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at the rate or rates per annum and payable on the dates provided in the Credit Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates provided in the Credit Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates and maturity dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not affect the obligations of the Borrower under this Note.

This Note is one of the Notes referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the State of New York and any applicable laws of the United States of America.

AVISTA CORPORATION

by

Name:
Title:

Loans and Payments

Payments

Date	Amount and Type/Class of Loan	Maturity Date	Principal	Interest	Unpaid Principal Balance of Note	Name of Person Making Notation

EXHIBIT B

[FORM OF]

ASSIGNMENT AND ACCEPTANCE

Reference is made to the $135,000,000 Amended and Restated Credit Agreement dated as of June 29, 1999 (as in effect from time to time, the "Credit Agreement"), among Avista Corporation, a Washington corporation (the "Borrower"), the banks listed on Schedule 2.01 thereto (the "Banks") and Toronto Dominion (Texas), Inc., as agent for the Banks (in such capacity, the "Agent"). Terms defined in the Credit Agreement are used herein with the same meanings.

1. The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on the reverse hereof, the interests set forth on the reverse hereof (the "Assigned Interest") in the Assignor's rights and obligations under the Credit Agreement, including, without limitation, the interests set forth on the reverse hereof in the Commitment of the Assignor on the Effective Date and Revolving Loans [and Auction Loans] owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Revolving Loans [and Auction Loans] to the Effective Date, and the amount, if any, set forth on the reverse hereof of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.04(c) of the Credit Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Credit Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement.

2. This Assignment and Acceptance is being delivered to the Agent together with (i) the Notes evidencing the Loans

included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms specified in Section 2.18(f) of the Credit Agreement, duly completed and executed by such Assignee, (iii) if the Assignee is not already a Bank under the Credit Agreement, an Administrative Questionnaire in the form of Exhibit C to the Credit Agreement and (iv) a processing and recordation fee of $5,000.

3. This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the State of New York.

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Effective Date of Assignment (may not be fewer than 5 Business Days after the Date of Assignment):

Facility	Principal Amount Assigned (and identifying information as to individual Auction Loans)	Percentage Assigned of Facility and Commitment Thereunder (set forth, to at least 8 decimals, as a percentage of the Facility and the aggregate Commitments of all Banks thereunder)
Commitment Assigned:	$	%
Revolving Loans:	$	%
Auction Loans:	$	%
Fees Assigned (if any):	$	%

The terms set forth above and on the reverse side hereof are hereby agreed to:

Accepted:

_____, as Assignor

By: _____
Name:
Title:

TORONTO DOMINION (TEXAS), INC., as Agent

By: _____
Name:
Title:

_____, as Assignee

By: _____
Name:
Title:

AVISTA CORPORATION

By: _____
Name:
Title:

EXHIBIT C

Administrative Questionnaire

EXHIBIT D

Opinion of Counsel for the Borrower

SCHEDULE 2.01

Banks

Bank	Commitment
Toronto Dominion (Texas), Inc. 909 Fanning Suite 1700 Houston, TX 77010 Attention: Ms. Kimberly Burleson Telecopy: (713) 951-9921	$18,125,000.00
With copies to: The Toronto-Dominion Bank U.S.A. Division 31 West 52nd Street New York, NY 10019-6101 Attention: Mr. Peter Cody Telecopy: (212) 262-1929	
Bank of America National Trust and Savings Association 555 California Street 41st Floor San Francisco, CA 94104 Attention: Mr. Lawrence Balingit Telecopy: (415) 622-0632	$2,500.000.00
The Bank of Nova Scotia 888 S.W. 5th Avenue Suite 750 Portland, OR 97204-2078 Attention: Mr. Scott Bruun Telecopy: (503) 222-5502	$20,000,000.00

The Bank of New York One Wall Street New York, NY 10286 Attention of: Ms. Trisha E. Hardy Telecopy: (212) 635-7923	$24,375,000.00
First Security Bank, N.A. 119 N. 9th Street(83702) Boise, ID 83730 Attention: Mr. Brian Cook Telecopy: (208) 393-2472	$13,750,000.00
Morgan Guaranty Trust Company of New York 60 Wall Street New York, NY 10261 Attention: Mr. Robert Bottamedi Telecopy: (212) 648-5018	$15,000,000.00
Mellon Bank, N.A. 1 Mellon Bank Center Room 151-4530 Pittsburgh, PA 15258 Attention: Mr. Mark Rogers Telecopy: (412) 236-1840	$5,625,000.00
U.S. Bank 1420 Fifth Avenue 11th Floor WWH276 Seattle, WA 98101 Attention: Mr. Wilfred Jack Telecopy: (206) 344-3643	$7,500,000.00
Wachovia Bank, N.A. 191 Peachtree Street, N.E. Atlanta, GA 30303 Attention: Ms. Jessica Wright Telecopy: (404) 332-5397	$15,625,000.00
Wells Fargo Bank, National Association 524 W. Riverside Avenue Suite 800 8th Floor Spokane, WA 99210	$12,500,000.00

Attention: Mr. Tom Beil
Telecopy: (509) 455-5762

SCHEDULE 3.14

Significant Subsidiaries

Name	Percent Ownership
Avista Capital, Inc.	100%
Pentzer Corporation	100%

Exhibit 10(q)-7

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is entered into this 10th day of September, 1998, by and between THE WASHINGTON WATER POWER COMPANY, a Washington corporation, whose principal place of business is located at 1411 East Mission Avenue, Spokane, Washington ("WWP" or the "Company") and David J. Meyer (the "Employee"), an individual currently residing in Spokane, Washington. The Company or the Employee may hereafter be referred to individually as a "Party" or collectively as the "Parties."

WHEREAS, the Company wishes to employ the Employee as Senior Vice President and General Counsel, and the Employee wishes to accept such employment;

WHEREAS, the Company and the Employee desire to enter into this Employment Agreement setting forth the terms and conditions of employment;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and for other good and valuable consideration, the Parties agree as follows:

1. Employment and Duties.

1.1 The Company, and any successor thereto, agree to employ Employee and Employee agrees to be employed by the Company beginning as of the Effective Date of this Agreement, subject to the terms and conditions of this Agreement. The Effective Date of this Agreement is September 16, 1998. Employee agrees to begin performing the services as contemplated herein as soon as is reasonably practicable after the Effective Date, after giving any required notice to his existing employer.

1.2 From the Effective Date, and for the term of this Agreement, Employee shall serve as General Counsel, and, subject to ratification and approval by the Board of Directors of the Company, shall also hold the office of Senior Vice President. Employee shall perform such duties and exercise such powers as are customarily expected of the Senior Vice President and General Counsel of business organizations which are similar to the Company. Such titles, authority, duties and responsibilities may be changed from time to time only by mutual written agreement of the Parties.

1.3 Employee's period of employment under this Agreement shall be for a period of five (5) years, beginning as of the Effective Date of this Agreement ("Initial Term"), and shall continue thereafter, on a year-to-year basis, unless terminated by written notice delivered to Employee not less than twelve (12) months prior to any anniversary date following the Initial Term. The Initial Term, plus any year-to-year renewals, shall collectively constitute the "Employment Period."

1.4 Employee shall, during the period of the employment by Company, devote his entire business time, energy and best efforts to the business and affairs of the Company and not engage, directly or indirectly, in any other business or businesses to the extent such activity would be contrary to the interests of Company or any Affiliate of Company or would detract from Employee's ability to perform his duties under this Agreement.

1.5 Employee shall be subject to the policies and procedures adopted, established or amended by Company from time to time which are applicable to all employees generally, except where inconsistent herewith.

2. Compensation and Benefits. During the term of this Agreement the Company agrees to pay or cause to be paid to Employee, and Employee agrees to accept in exchange for the services rendered hereunder by him, the following compensation:

2.1 Base Salary. The Company shall pay Employee an annual base salary of Two Hundred and Forty Thousand ($240,000.00), payable not less often than monthly in equal installments, which salary shall be subject to prospective adjustment from time to time by the Board of Directors of the Company, in its sole discretion, but shall not be reduced during the term of this Agreement. An increase in annual base salary shall not serve to limit or reduce any other obligation of the Company under this Agreement.

2.2 Signing Bonus. On the Effective Date, the Company shall award Employee a signing bonus of $200,000 (the "Signing Bonus"). In the event that Employee terminates his employment with the Company prior to the expiration of the Employment Period, other than for Good Reason (as defined below), Employee shall repay to the Company, within sixty (60) days of date of termination, the amount of the Signing Bonus as is proportionate to the period of time remaining in the Employment Period.

2.3 Restricted Stock Award. Employee shall be awarded restricted shares of the Company's Common Stock (the "Common Stock") having a fair market value on the Effective Date equal to $200,000. This award will vest at me rate of 25% on each of the first four anniversaries of the Effective Date. For purposes of this section, the "fair market value" of the Common Stock means the average of the high and low trading prices on the applicable day. This award shall be made by the Company as soon as reasonably practicable following the Effective Date. Regardless of the date this award is made, the number of restricted shares awarded to Employee shall be calculated as described in the first sentence of this section 2.3.

2.4 Stock Option Grant. On the Effective Date, Employee shall be awarded an option to purchase 20,000 shares of Common Stock, with an exercise price equal to the fair market value of the Common Stock on the Effective Date. These options will vest at the rate of 25% on each of the first four anniversaries of the Effective Date.

2.5 Incentive. Retirement. and Welfare Benefit Plans. During the term of this Agreement, and so long as he is employed by the Company, Employee shall be eligible to participate in all incentive, stock option, restricted stock, performance unit or share, savings, retirement, health insurance or health care plan, life insurance, disability insurance and welfare plans, practices, policies and programs, including indemnification and a change of control agreements, presently available or offered generally to other senior executives of the Company, except with respect to any benefits under any plan, practice, policy or program to which the Employee has waived his rights in writing. As of the Effective Date, Employee shall be deemed to be an eligible Employee to participate in the supplemental executive retirement plan and other pension/benefit plans of the Company (or in the applicable successor plans thereto), on terms not less favorable than those now in effect, and with termination/death/disability benefits accrued and vesting as of the Effective Date, and calculated on the basis of not less than twenty years of

credited benefit service (@ 2.5%) for these and any other plans or programs relating to termination, death, disability, and based on a level of final average earnings of not less than the Employee's annual base salary and bonus/incentive compensation earned during his first full year of employment.

2.6 Other Fringe Benefits. During the term of this Agreement, Employee shall be entitled to other fringe benefits provided by Company policy to officers or senior executives of the Company. In addition, Employee shall also be entitled to not less than thirty (30) days paid Leave pursuant to the Company's One-Leave Program (as currently in effect or as may be modified from time to time).

3. Termination. Employment of Employee under this Agreement may be terminated as follows:

3.1 By the Company. With or without Cause (as defined below), the Company may terminate the Employment of Employee at any time during the Employment Period upon giving Notice of Termination (as defined below).

3.2 By Executive. With or without Good Reason (as defined below), Employee may terminate his employment at any time during the Employment Period upon giving Notice of Termination.

3.3 Automatic Termination. This Agreement and Employee's employment hereunder shall terminate automatically upon the death or total disability of Employee. The term "total disability" as used herein shall mean permanent and total disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Termination under this Section 3.3 shall be deemed to be effective (a) at the end of the calendar month in which Employee's death occurs or (b) immediately upon a determination by the Board of Directors of Employee's total disability, as defined herein.

3.4 Notice. Except as otherwise provided in Section 1.3, The term "Notice of Termination" shall mean at least twenty (20) days' written notice of termination of Employee's employment, during which period Employee's employment and performance of services will continue; provided, however, that the Company may, upon notice to Employee and without reducing Employee's compensation during such period, excuse Employee from any or all of his duties during such period. The effective date of the termination of Employee's employment hereunder shall be the date on which such twenty (20) day period expires.

3.5 Cause. Wherever reference is made in this Agreement to termination being with or without Cause, "Cause" is limited to the occurrence of one or more of the following events:

(a) The willful failure or refusal to carry out the lawful duties of Employee described herein or any directions of the Board of Directors of the Company, which directions are reasonably consistent with the duties set forth herein to be performed by the Employee;

(b) Violation by Employee of a state or federal criminal law involving the commission of a crime against the Company or a felony;

(c) Current use by Employee of illegal substances, deception, fraud, misrepresentation or dishonesty by Employee; any incident materially compromising Employee's reputation or ability to represent the Company with the public; any act or omission by Employee which substantially impairs the Company's business, goodwill or reputation; or any other misconduct; or

(d) Any other material and willful violation of any provision of this Agreement.

3.6 Good Reason. Whenever reference is made in this Agreement to termination being with or without Good Reason, "Good Reason" is limited to the occurrence of one or more of the following events:

(a) The reduction in the Employee's annual base salary and other entitlements specified in this Agreement or the reduction in the value of other bonus payments or equity awards that Employee is eligible to receive under this Agreement (provided, however, that Good Reason shall not exist under this Section 3.6(a) in the event Employee does not actually realize such values because of failure to satisfy performance or other criteria applicable to such bonus payments or equity awards);

(b) The material diminution, change or reduction without his consent of the Employee's title, authority, duties or responsibilities;

(c) The Company requiring Employee without his consent to be based at any offices or locations other than his location as of the Effective Date of this Agreement; or

(d) Any breach by the Company of any other material provision of this Agreement.

4. Termination Payments. In the event of termination of the employment of Employee, all compensation and benefits set forth in this Agreement shall terminate except as specifically provided in this Section 4.

4.1 Termination by the Company. If the Company terminates the Employee's employment without Cause prior to the end of the Employment Period, (a) (i) Employee shall be entitled to receive termination payments equal to the greater of twenty-four (24) months' annual base salary or the annual base salary Employee would have received if his employment hereunder had continued until the end of the Employment Period; (ii) the restricted stock award granted to Employee under Section 2.3 hereof will vest in full; and (iii) vesting of all other equity awards or stock options granted to Employee pursuant to this Agreement will accelerate on the date of termination, but only up to the percentages that would have been vested had Employee remained in regular employment with the Company to the end of the Employment Period; (iv) the Company shall pay to or cause to be paid to the Employee, pursuant to the terms of the respective plans, based on the Employee's annual base salary at the time Notice of Termination is given, the value of all benefits to which the Employee would have been entitled had he remained

in the employment of the Company until the end of the Employment Period, under the Company's pension plans, supplemental executive retirement plans, disability plans and such other benefit plans as may be adopted from time to time during the Employee's employment with the Company; and (v) the Company shall continue medical and welfare benefits for the Employee and the Employee's spouse at least equal to those which would have been provided if the Employee's employment had not been terminated, such benefits to be in accordance with the most favorable medical and welfare benefit plans, practices, programs or policies of the Company as in effect and applicable generally to other senior executives of the Company and their families; and (b) Employee shall be entitled to receive any unpaid annual base salary which has accrued for services already performed as of the date termination of Employee's employment becomes effective, and any earned and unpaid incentives, as well as any vested pension and benefit rights. For purposes of determining under clause (a)(iii) above whether equity awards or options that vest upon achievement of stock price appreciation goals would have been vested at the end of the Employment Period, a 15% annual growth rate in the market price of the Common Stock from the date of termination of employment shall be assumed.

If Employee is terminated by the Company for Cause, Employee shall not be entitled to receive any of the foregoing benefits, other than those set forth in clause (b) above.

4.2 Termination by Employee. In the case of the termination of Employee's employment by Employee other than for Good Reason, Employee shall not be entitled to any payments hereunder, other than those set forth in Section 4.1(b) hereof. In the case of the termination of Employee's employment for Good Reason, Employee shall be entitled to receive those payments set forth in Section 4.1(a) and (b) hereof.

4.3 Expiration of Term. In the case of a termination of Employee's employment as a result of the expiration of the Employment Period, Employee shall not be entitled to receive any payments hereunder, other than those set forth in Section 4.1(b) hereof.

4.4 Termination Because of Death or Total Disability. In the event of a termination of Employee's employment because of his death or total disability, Employee or his Personal Representative shall be entitled to receive termination payments in accordance with the Company's Executive Income Continuation Plan, or any successor plan thereto generally applicable to the Company's executive officers.

4.5 Payment Schedule. All payments under this Section 4 shall be made to the Employee at the same interval as payments of salary were made to Employee immediately prior to termination.

5. Confidential Information. Employee acknowledges that the Company's business is highly competitive and that the Company's books, records and documents, the Company's technical information concerning its products, equipment, services and processes, procurement procedures and pricing techniques, the names of and other information (such as credit and financial data) concerning the Company's customers and business Affiliates, all compromise confidential business information and trade secrets of the Company which are valuable, special, and unique assets of the Company which the Company uses in its business to obtain a competitive advantage over the Company's competitors which do not know or use this information. Employee further acknowledges that protection of the Company's confidential

business information and trade secrets against unauthorized disclosure and use, is of critical importance to the Company in maintaining its competitive position. Accordingly, Employee hereby agrees that he will not, at any time during or after his employment by the Company, make any unauthorized disclosure of any confidential business information or trade secrets of the Company, or make any use thereof, except for the benefit of, and on behalf of the Company, or make any use thereof, except for the benefit of and on behalf of the Company. For the purposes of this Section, the term the "Company" shall also include Affiliates of the Company.

6. Return of Materials. In the event of the termination of Employee's employment with the Company or the expiration of this Agreement, Employee will return all documents, data and other materials of whatever nature, including, without limitation, drawings, specifications, research, reports, embodiments, software and manuals to the Company which pertain to his employment with the Company or to any Intellectual Property and shall not retain or cause or allow any third party to retain photocopies of other reproductions of the foregoing.

7. Notice and Cure of Breach. Whenever a breach of this Agreement by either Party is relied upon as justification for any action taken by the other Party pursuant to any provisions of this Agreement, other than pursuant to the definition of "Cause" set forth in Section 3 hereof, before such action is taken, the Party asserting the breach of this Agreement shall give the other Party at least twenty (20) days' prior written notice of the existence and the nature of such breach before taking further action hereunder and shall give the Party purportedly in breach of this Agreement the opportunity to correct such breach during the twenty (20) day period.

8. Form of Notice. All notices given hereunder shall be given in writing, shall specifically refer to this Agreement and shall be personally delivered or sent by telecopy or other electronic facsimile transmission or by reputable overnight courier, at the address set forth below or at such other address as may hereafter be designated by notice given in compliance with the terms hereof. Such notice shall be effective upon receipt or upon refusal of the addressee to accept delivery.

If to Employee: The Washington Water Power Company
East 1411 Mission Avenue
Spokane, Washington

If to the Company: The Washington Water Power Company
East 1411 Mission Avenue
Spokane, Washington

9. Assignment. This Agreement is personal to the Employee and shall not be assignable by Employee. The Company may assign its rights hereunder to (a) any corporation resulting from any merger, consolidation or other reorganization to which the Company is a party or (b) any corporation, partnership, association or other person to which the Company may transfer all or substantially all of the assets and business of the Company existing at such time. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of and may be enforceable by the Parties hereto and their respective successors and permitted assigns.

10. Waivers. No delay or failure by any Party hereto in exercising, protecting or enforcing any of its rights, tides, interests or remedies hereunder, and no course of dealing or performance with respect thereto, shall constitute a waiver thereof. The express waiver by a Party hereto of any right, title, interest or remedy in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance. All rights and remedies shall be cumulative and not exclusive of any other rights or remedies. Any controversies or claims arising out of or relating to this Agreement shall be fully and finally settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effective (the "AAA Rules"), conducted by one arbitrator either mutually agreed upon by the Company and the Employee or chosen in accordance with the AAA Rules, except that the Parties thereto shall have any right to discovery as would be permitted by the Federal Rules of Civil Procedure for a period of ninety (90) days following the commencement of such arbitration and the arbitrator thereof shall resolve any dispute which arises in connection with such discovery. The prevailing Party shall be entitled to costs, expenses and reasonable attorney fees, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

11. Amendments in Writing. No amendment, modification, waiver, termination or discharge of any provision of this Agreement, nor consent to any departure therefrom by either Party hereto, shall in any event be effective unless the same shall be in writing, specifically identifying this Agreement and the provision intended to be amended, modified, waived, terminated or discharged and signed by the Company and Employee, and each such amendment, modification, waiver, termination or discharge shall be effective only in the specific instance and for the specific purpose for which given. No provision of this Agreement shall be varied, contradicted or explained by any oral agreement, course of dealing or performance or any other matter not set forth in an agreement in writing and signed by the Company and the Employee.

12. Severability. If any provision of this Agreement shall be held invalid, illegal or unenforceable in any jurisdiction, for any reason, then, to the full extent permitted by law (a) all other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intent of the Parties hereto as nearly as may be possible, (b) such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of any other provision hereof; and (c) any court or arbitrator having jurisdiction thereof shall have the power to reform such provision to the extent necessary for such provision to be enforceable under applicable law. Any benefits and payments owing to the Employee under this Agreement shall be a general liability of the Company, and shall be paid from the general assets of the Company, and shall be an unfunded and unsecured promise to pay money in the future, to the extent the Company is unable or has not elected to otherwise fund or secure such payments or administer such payments and benefits under an existing plan or program.

13. Miscellaneous.

13.1 This Agreement shall in all respects, including all matters of construction, validity and performance, be governed by and construed and enforced in accordance with, the Laws of the State of Washington, without regard to any rules governing conflicts of laws.

13.2 All headings used herein are for convenience only and shall not in any way affect the construction of or be taken into consideration in interpreting this Agreement.

13.3 This Agreement, and any amendment or modification entered into pursuant thereto, may be executed in any number of counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same instrument.

13.4 This Agreement on the date hereof constitutes the entire agreement between the Company and Employee with respect to the subject matter hereof and all prior or contemporaneous oral or written communications, understandings or agreements between the Company and the Employee with respect to such subject matter are hereby superseded and nullified in their entireties.

IN WITNESS WHEREOF the Parties have executed and entered into this Agreement on the date set forth above.

EMPLOYEE:	COMPANY:
/s/ David J. Meyer	By /s/ T. M. Matthews
	Title Chairman and CEO

EXHIBIT 12

AVISTA CORPORATION

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

	Years Ended December 31				
	1999	1998	1997	1996	1995
Fixed charges, as defined:					
Interest on long-term debt	$ 62,032	$ 66,218	$ 63,413	$ 60,256	$ 55,580
Amortization of debt expense and premium - net	3,044	2,859	2,862	2,998	3,441
Interest portion of rentals	4,645	4,301	4,354	4,311	3,962
Total fixed charges	$ 69,721	$ 73,378	$ 70,629	$ 67,565	$ 62,983
Earnings, as defined:					
Net income from continuing ops	$ 26,031	$ 78,139	$114,797	$ 83,453	$ 87,121
Add (deduct):					
Income tax expense	16,740	43,335	61,075	49,509	52,416
Total fixed charges above	69,721	73,378	70,629	67,565	62,983
Total earnings	$112,492	$194,852	$246,501	$200,527	$202,520
Ratio of earnings to fixed charges	1.61	2.66	3.49	2.97	3.22
Fixed charges and preferred dividend requirements:					
Fixed charges above	$ 69,721	$ 73,378	$ 70,629	$ 67,565	$ 62,983
Preferred dividend requirements (1)	35,149	13,057	8,261	12,711	14,612
Total	$104,870	$ 86,435	$ 78,890	$ 80,276	$ 77,595
Ratio of earnings to fixed charges and preferred dividend requirements	1.07	2.25	3.12	2.50	2.61

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

Exhibit 21

Avista Corporation

SUBSIDIARIES OF REGISTRANT

Subsidiary	State of Incorporation
Altus Corporation	Nevada
Avista Capital, Inc.	Washington
Avista Advantage, Inc.	Washington
Avista Communications, Inc.	Washington
Avista Development, Inc.	Washington
Avista Energy, Inc.	Washington
Avista Fiber, Inc.	Washington
Avista International, Inc.	Washington
Avista Laboratories, Inc.	Washington
Avista Power, Inc.	Washington
Avista Services, Inc.	Washington
Pentzer Corporation	Washington
WWP Receivables Corp.	Washington

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF AVISTA CORPORATION, INCLUDED IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS
DEC-31-1999
DEC-31-1999
PER-BOOK
1,500,837
714,186
1,214,069
284,402
0
3,713,494
310,491
(4,513)
87,521
393,499
145,000
263,309
544,895
111,030
5,097
10,000
49,401
0
4,810
1,650
2,184,803
3,713,494
7,904,984
16,740
7,873,627
7,873,627
31,357
76,490
107,847
65,076
26,031
21,392
4,639
18,301
44,541
111,176
0.12
0.12

LONG-TERM DEBT-NET DOES NOT MATCH THE AMOUNT REPORTED ON THE COMPANY'S CONSOLIDATED STATEMENT OF CAPITALIZATION AS LONG-TERM DEBT DUE TO THE OTHER CATEGORIES REQUIRED BY THIS SCHEDULE.
OTHER ITEMS CAPITAL AND LIABILITIES INCLUDES THE CURRENT LIABILITIES, DEFERRED CREDITS AND MINORITY INTEREST, LESS CERTAIN AMOUNTS INCLUDED UNDER LONG-TERM DEBT-CURRENT PORTION AND LEASES-CURRENT. FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET.
THE COMPANY DOES NOT INCLUDE INCOME TAX EXPENSE AS AN OPERATING EXPENSE ITEM. IT IS INCLUDED ON THE COMPANY'S STATEMENTS AS A BELOW-THE-LINE ITEM.
INCOME BEFORE INTEREST EXPENSE IS NOT A SPECIFIC LINE ITEM ON THE COMPANY'S INCOME STATEMENTS. THE COMPANY COMBINES TOTAL INTEREST EXPENSE AND OTHER INCOME TO CALCULATE INCOME BEFORE INCOME TAXES.