

MEMORANDUM OF UNDERSTANDING
BETWEEN
PACIFICORP
AND
AVISTA CORPORATION

This Memorandum Of Understanding (MOU) is intended to clarify certain provisions of the agreement commonly referred to as the Transmission Line Agreement (for the Lolo-Walla Walla-Wanapum 230 kV transmission line (Line)) entered into October 25, 1962 (hereinafter "Agreement" and attached as Exhibit A) by and between Avista Corporation ("Avista") (previously doing business as The Washington Water Power Company) and PacifiCorp (previously doing business as Pacific Power and Light Company). The Agreement was negotiated and signed before the Federal Energy Regulatory Commission issued, or even contemplated, its landmark Orders Nos. 888 and 2000. The Agreement has served Avista Corporation and PacifiCorp (each a "Party" and collectively the "Parties") well in the past, but it is difficult to apply Section 5 of the Agreement in light of current Federal Energy Regulatory Commission requirements and common market practices. This MOU will serve to clarify the rights and responsibilities of each Party with respect to the provisions of the Agreement discussed herein.

1. Priority Rights

1.1. Pursuant to Section 5 of the Agreement, each Party will have equal rights to the entire capacity of the Line up to the point that the capacity of the Line is exceeded. Under those conditions, Avista will have first right and priority to 240 megawatts (originally 200 megawatts, but increased when delivery of Wells Project power began) from West to East and PacifiCorp will have first right and priority to 240 megawatts from East to West. The Parties agree that these rights will define priority rights and that the

priority rights of 240 megawatts apply to each of the Parties (hereinafter “Priority Rights”).

1.2. The Parties agree that Priority Rights will increase proportionately as the capacity of the Line is increased. For example: If the capacity of the Line is increased to 530 megawatts, Avista’s Priority Rights will increase to 265 megawatts in the easterly direction and PacifiCorp’s Priority Rights will increase to 265 megawatts in the westerly direction.

1.3. The Parties agree that the Priority Rights of each Party are preserved for any temporary de-rating of the Line. For example: If the Line is rated at 530 megawatts for the winter season and if circumstances require that the Line be de-rated to 500 megawatts, the priorities of each Party will remain at 265 in the respective directions as specified in the Agreement.

1.4. If the Line is permanently rated at below 480 megawatts, then each Party will maintain its Priority Rights of 240 megawatts in the respective directions as specified in the Agreement.

1.5. If the Line is rated at below 240 megawatts, each Party will maintain Priority Rights to the entire capacity of the Line in the respective directions as specified in the Agreement.

2. Remaining Capacity after Priority Rights are Assigned.

Remaining Capacity will be defined as that capacity which is remaining after Priority Rights are subtracted from the Total Transfer Capacity (TTC). The Parties agree that PacifiCorp will have rights to the Remaining Capacity in the easterly direction after Avista’s Priority Rights in the easterly direction are satisfied. Conversely Avista will have rights to the Remaining Capacity in the westerly direction after PacifiCorp’s Priority Rights in the westerly direction are satisfied.

3. Use of Capacity in Excess Rights Specified in this MOU.

3.1. If at some time in the future, both Parties use a common Open Access Same-time Information System (OASIS) system to manage Available Transfer Capability (ATC) on this jointly owned path, and this common OASIS platform allows the Parties to

better utilize the Remaining Capacity rights specified in this MOU, the following section will be implemented if and only if both Parties jointly agree to implement this change.

3.2. The Parties interpret section 5, paragraph two to mean that either Party may utilize the entire capacity of the Line at no cost unless the other Party exercises its Priority Rights or Remaining Capacity rights by submitting a transmission schedule for the Line. In that event, the Party lacking Priority Rights or Remaining Capacity rights for a portion of its schedule will reduce its transmission schedule as necessary to accommodate the schedule of the rights holder except that in no event will a Party be required to reduce its schedule below its Remaining Capacity or Priority Rights.

Example 1. If the TTC for the Line is 480 megawatts, Avista were to schedule 400 megawatts in the easterly direction, and PacifiCorp wished to schedule 100 megawatts in the same direction, Avista would be required to reduce its schedule to accommodate PacifiCorp's schedule or make alternate financial arrangements satisfactory to PacifiCorp.

Example 2. If PacifiCorp were to schedule 300 megawatts in easterly direction (TTC = 480) and Avista wished to schedule 250 in the same direction, Avista would be required to reduce its schedule to 240 megawatts and PacifiCorp would be required to reduce its schedule to 240 megawatts. Again, alternate financial arrangement suitable to each Party would be acceptable.

3.3. The Parties have initially agreed on scheduling practices, which from time to time may be modified either formally or informally for the mutual benefit of the Parties.

In **WITNESS WHEREOF**, the Parties hereto have caused this Memorandum Of Understanding to be executed by their duly authorized representatives as of the date herein set forth:

AVISTA CORPORATION

PACIFICORP

(Signature)

Randall O. Cloward

(Printed Name)

Director Transmission Operations

(Title)

September 16, 2003

(Date)

(Signature)

(Printed Name)

(Title)

(Date)

Exhibit A

Transmission Line Agreement

Lolo-Walla Walla-Wanapum Agreement dated October 25, 1962