

APPENDIX 1

SKOOKUMCHUCK FACILITIES PURCHASE AND SALE AGREEMENT

PACIFICORP;
PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON; PUGET
SOUND ENERGY, INC.;
CITY OF TACOMA, WASHINGTON; AVISTA CORPORATION;
CITY OF SEATTLE, WASHINGTON; and
PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

As Sellers

AND

2677588 Washington LLC

As Buyer

Execution Copy

SKOOKUMCHUCK FACILITIES PURCHASE AND SALE AGREEMENT

TABLE OF CONTENTS

	Page
ARTICLE I	
DEFINITIONS.....	1
Section 1.1	
Certain Defined Terms.....	1
(a) “Affiliate”	1
(b) “Assigned Contracts”	1
(c) “Business Day”	2
(d) “Environmental Law”	2
(e) “Governmental Body”	2
(f) “Hazardous Materials”	2
(g) “Knowledge”	2
(h) “LLC”	2
(i) “Laws”	2
(j) “Licenses”	3
(k) “Material Adverse Effect”	3
(l) “Person”	3
(m) “PUHCA”	3
(n) “Release”	3
(o) “Safety Program”	3
(p) “State PUC”	3
(q) “Taxes”	3
(r) “Washington Ruling”	3
Section 1.2	
Index of Other Defined Terms.....	4
ARTICLE II	
BASIC TRANSACTIONS	5
Section 2.1	
Purchased Assets.....	5
Section 2.2	
Excluded Assets	6
Section 2.3	
Facilities Purchase Price	8
Section 2.4	
License of Non-Transferred Intangible Assets	8
Section 2.5	
Assignment of Rights and Obligations to Buyer Affiliate.....	8
Section 2.6	
Assumption of Liabilities.....	8
Section 2.7	
Water Flow Agreement.....	9

ARTICLE III	REPRESENTATIONS AND WARRANTIES OF SELLERS.....	9
Section 3.1	Authority and Enforceability	9
Section 3.2	No Breach or Conflict.....	9
Section 3.3	Approvals.....	10
Section 3.4	Licenses.....	10
Section 3.5	Compliance with Law	10
Section 3.6	Hazardous Materials	10
Section 3.7	Title to Assets	11
Section 3.8	Contracts	11
Section 3.9	Litigation.....	12
Section 3.10	Brokers	12
Section 3.11	Assets Used in the Operation of the Facilities	12
Section 3.12	Option Rights	12
Section 3.13	LLC Interests	12
Section 3.14	Liability.....	12
Section 3.15	Liabilities	12
Section 3.16	Appurtenant Rights	12
Section 3.17	Disregarded Entity	13
Section 3.18	Regulatory Status.....	13
ARTICLE IV	REPRESENTATIONS AND WARRANTIES OF BUYER.....	13
Section 4.1	Organization and Corporate Power.....	13
Section 4.2	Authority and Enforceability	13
Section 4.3	No Breach or Conflict.....	13
Section 4.4	Approvals.....	14
Section 4.5	Litigation.....	14
Section 4.6	Brokers.....	14
Section 4.7	Exculpation	14
Section 4.8	Financing.....	14
Section 4.9	No Knowledge of Sellers' Breach	15
Section 4.10	Qualified for Licenses.....	15
Section 4.11	Buyer Affiliate	15
ARTICLE V	COVENANTS OF EACH PARTY	15
Section 5.1	Efforts to Close.....	15

(a)	Reasonable Efforts	15
(b)	Control Over Proceedings.....	16
Section 5.2	Post-Closing Cooperation.....	17
Section 5.3	Expenses	17
(a)	O&M Costs	17
Section 5.4	New Exceptions to Title.....	19
ARTICLE VI	ADDITIONAL COVENANTS OF SELLERS	20
Section 6.1	Access	20
Section 6.2	Updating.....	20
Section 6.3	Conduct Pending Closing	21
Section 6.4	State PUC Determinations	22
Section 6.5	Disregarded Entity Documentation.....	22
ARTICLE VII	ADDITIONAL COVENANTS OF BUYER.....	22
Section 7.1	Resale Certificate	22
Section 7.2	Conduct Pending Closing	22
Section 7.3	EWG Application.....	22
ARTICLE VIII	BUYER'S CONDITIONS TO CLOSING	22
Section 8.1	Performance of Agreement.....	23
Section 8.2	Accuracy of Representations and Warranties	23
Section 8.3	Officers' Certificate	23
Section 8.4	Approvals.....	23
Section 8.5	No Restraint	23
Section 8.6	Title Insurance	24
(a)	Title Policy.....	24
(b)	Evidence of Commitment	24
Section 8.7	Casualty; Condemnation.....	24
(a)	Casualty.....	24
(b)	Condemnation	25
Section 8.8	Receipt of Other Documents.....	25
Section 8.9	All Sellers.....	25
Section 8.10	Material Adverse Effect.....	25
Section 8.11	LLC Contribution.....	25

ARTICLE IX	SELLERS' CONDITIONS TO CLOSING	26
Section 9.1	Performance of Agreement	26
Section 9.2	Accuracy of Representations and Warranties	26
Section 9.3	Officers' Certificate	26
Section 9.4	Approvals	26
Section 9.5	No Restraint	26
Section 9.6	Receipt of Other Documents	27
ARTICLE X	CLOSING	27
Section 10.1	LLC Transaction	27
Section 10.2	Closing	27
(a)	Deliveries by Sellers	27
(d)	Deliveries by Buyer	28
Section 10.3	Escrow	28
Section 10.4	Prorations	29
ARTICLE XI	TERMINATION	29
Section 11.1	Termination	29
Section 11.2	Effect of Termination	30
Section 11.3	Modification of Terms	30
ARTICLE XII	SURVIVAL AND REMEDIES; INDEMNIFICATION	31
Section 12.1	Survival	31
Section 12.2	Exclusive Remedy	31
Section 12.3	Indemnity by Sellers	31
Section 12.4	Indemnity by Buyer	32
Section 12.5	Further Qualifications Respecting Indemnification	33
Section 12.6	Procedures Respecting Third Party Claims	33
ARTICLE XIII	GENERAL PROVISIONS	34
Section 13.1	Notices	34
Section 13.2	Attorneys' Fees	35
Section 13.3	Successors and Assigns	35
Section 13.4	Counterparts	36
Section 13.5	Captions and Paragraph Headings	36
Section 13.6	Entirety of Agreement; Amendments	36
Section 13.7	Construction	36

Section 13.8	Waiver.....	36
Section 13.9	Arbitration.....	37
	(a) Agreement to Arbitrate	37
	(b) Submission to Arbitration	37
	(c) Selection of Arbitration Panel.....	37
	(d) Prehearing Discovery.....	38
	(e) Arbitration Hearing.....	38
	(f) Award.....	38
	(g) Provisional Remedies.....	38
	(h) Entry of Award by Court	39
	(i) Costs and Attorneys' Fees	39
Section 13.10	Governing Law	39
Section 13.11	Severability	39
Section 13.12	Consents Not Unreasonably Withheld.....	39
Section 13.13	Time Is of the Essence	39
Section 13.14	Liability.....	40
Section 13.15	Execution	40
ARTICLE XIV	AGENCY.....	40
Section 14.1	Agency.....	40

LIST OF SCHEDULES

- 1.1(g) Knowledge
- 2.1(a) Owned Real Property
- 2.1(b) Appurtenant Rights
- 2.1(c) Equipment
- 2.1(d) Assigned Contracts
- 2.1(e) Licenses
- 2.2(b) Excluded Assets
- 2.2(h) Other Excluded Assets
- 2.6 Excluded Obligations
- 3.3(a) Sellers' Private Party Consents
- 3.3(b) Sellers' Government Consents
- 3.4 Licenses
- 3.5 Compliance with Law
- 3.6 Hazardous Materials
- 3.7 Permitted Encumbrances
- 3.8 Contracts
- 3.9 Sellers' Litigation
- 3.11 Used and Necessary Assets
- 4.4(a) Buyer's Private Party Consents
- 4.4(b) Buyer's Government Consents
- 4.5 Buyer's Litigation
- 6.3 Exceptions to Conduct

LIST OF EXHIBITS

- | | |
|-----------|-----------------------|
| Exhibit A | Safety Program |
| Exhibit B | O&M Costs Forecast |
| Exhibit C | Special Warranty Deed |

SKOOKUMCHUCK FACILITIES PURCHASE AND SALE AGREEMENT

This SKOOKUMCHUCK FACILITIES PURCHASE AND SALE AGREEMENT (the "Agreement") is made and entered into as of the 25 day of November, 2003 by and among PACIFICORP ("PacifiCorp"); PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON ("Snohomish PUD"); PUGET SOUND ENERGY, INC. ("PSE"); CITY OF TACOMA, WASHINGTON ("Tacoma"); AVISTA CORPORATION ("Avista"); CITY OF SEATTLE, WASHINGTON ("Seattle"); AND PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON ("Grays Harbor PUD") (each a "Seller" and collectively "Sellers"), and 2677588 WASHINGTON LLC, a Washington limited liability company or its nominee ("Buyer"), with reference to the following facts:

A. Sellers are engaged in the business of generating, transmitting and distributing electric energy and in connection therewith own as tenants in common the Skookumchuck Dam located along the Skookumchuck River near Centralia, Washington (the "Dam"). The Skookumchuck Facilities impound a reservoir on the Skookumchuck River (the "Reservoir").

B. Buyer desires to purchase from Sellers, and Sellers desires to sell to Buyer, the interests in the LLC to which Sellers will contribute the Dam, related real property and other assets associated therewith (collectively, the "Facilities") upon the terms and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing recitals and the agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, do hereby agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Certain Defined Terms. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Affiliate" of a specified Person shall mean any corporation, partnership, sole proprietorship or other Person which directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with the Person specified. The term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person.

(b) "Assigned Contracts" shall mean all of Sellers' rights, title and interest in and to all written contracts and agreements specifically and exclusively relating to the Facilities to which Sellers are a party at the Closing. The Assigned Contracts shall also include, without limitation, engineering or construction contracts relating to engineering or construction work-in-progress at the Facilities; equipment leases (whether operating or capital leases) and installment purchase contracts; contracts or arrangements binding on the Facilities which restrict the nature of the business activities in which the Facilities may engage; and leases with respect to which Sellers are lessor or sublessor.

(c) “Business Day” means a day that is not a Saturday, a Sunday or a day on which banking institutions in the State of Washington are not required to be open.

(d) “Environmental Law” shall mean all applicable Laws and Licenses for or relating to: (i) air emissions, hazardous materials, storage, use and release to the environment of Hazardous Materials, generation, treatment, storage, and disposal of hazardous wastes, wastewater discharges and similar environmental matters, and (ii) the protection and enhancement of the environment (including without limitation the National Environmental Policy Act of 1969, 42 U.S.C. Section 4321 et seq.; Endangered Species Act of 1973, as amended, 16 U.S.C. Section 1531 et seq.; Migratory Bird Treaty Act, 16 U.S.C. Sections 703-712; Magnuson Stevens Fisheries Conservation and Management Act, 16 U.S.C. Section 1801 et seq.; the Washington State Environmental Policy Act of 1971, Chapter 43.21C RCW; Federal Water Pollution Control Act of 1972, 33 U.S.C. Section 1251 et seq.; and state Laws addressing species, impacts to water quality and wetlands).

(e) “Governmental Body” means any federal, state, local, municipal, or other government; any governmental, regulatory or administrative agency, commission, body or other authority exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power; and any court or governmental tribunal; including without limitation FERC, the Securities Exchange Commission, the U.S. Department of Fish and Wildlife, the Washington Department of Fish and Wildlife, the U.S. Army Corps of Engineers and each State PUC; but does not include any Seller, Buyer, Buyer Affiliate, or any of their respective successors in interest or any owner or operator of the Facilities (if otherwise a Governmental Body) acting in their role as owner or operator.

(f) “Hazardous Materials” means any chemicals, materials, substances, or items in any form, whether solid, liquid, gaseous, semisolid, or any combination thereof, whether waste materials, raw materials, chemicals, finished products, by-products, or any other materials or articles, which are listed as hazardous, toxic or dangerous under Environmental Law, including without limitation, petroleum products, asbestos, urea formaldehyde foam insulation, lead-containing paints or coatings and “hazardous debris,” “hazardous substances” and “hazardous wastes” as defined by WAC 173-303-040.

(g) “Knowledge” of a party shall mean with respect to such party, the extent of the actual knowledge of the Persons listed on Schedule 1.1(g) with respect to such party, with consultation of documents and Persons under their supervision in the ordinary course of their duties but without further inquiry of other Persons. Actual knowledge of any individual Seller shall not be imputed to any other individual Seller.

(h) “LLC” shall mean “Skookumchuck Dam, LLC,” a Washington limited liability company to be formed for purposes of the LLC Transaction.

(i) “Laws” shall mean all statutes, rules, regulations, ordinances, orders, common law and their legal and equitable principles, and codes of federal, foreign, state and local governmental and regulatory authorities.

(j) "Licenses" shall mean registrations, licenses, permits, authorizations and other consents or approvals of Governmental Bodies.

(k) "Material Adverse Effect": (a) When used with respect to the LLC Interests, means a material adverse effect on the value or transferability of the LLC Interests, (b) when used with respect to the Assets or Facilities, means a material adverse effect on the Assets or Facilities and on the operation thereof, taken as a whole; (c) when used with respect to any portion of the Assets or Facilities, means a material adverse effect on such portion of the Assets or Facilities and on the operation thereof, taken as a whole; and (d) when used with respect to a Person, such as a Seller or Buyer, means a material adverse effect on the business, condition (financial or otherwise) and results of operations of such Person taken as a whole (including any subsidiaries of such entity) or on the ability of such Person to consummate the transactions contemplated hereby.

(l) "Person" means any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

(m) "PUHCA" means the Public Utility Holding Company Act of 1935, as amended, and the rules and regulations promulgated thereunder.

(n) "Release" means any release, spill, emission, leaking, pumping, emptying, dumping, injection, abandonment, deposit, disposal, discharge, dispersal, leaching, or migration of Hazardous Materials (including, without limitation, the abandonment or discarding of Hazardous Materials in barrels, drums, or other containers) into or within the environment, including, without limitation, the migration of Hazardous Materials into, under, on, through, soil, subsurface strata, surface water, groundwater, drinking water supply, any sediments associated with any water bodies, or any other environmental medium, regardless of where such migration originates.

(o) "Safety Program" means the design and implementation of the seismic drilling program contemplated by the Federal Energy Regulatory Commission's ("FERC") letters of March 19, 2003, July 31, 2003 and October 7, 2003 and Sellers' May 1, 2003 and July 30, 2003 letters to FERC which are attached hereto as Exhibit A and as may be further modified pursuant to Section 5.1(b)(ii).

(p) "State PUC" means any state commission with jurisdiction over the rates and charges of one or more Sellers.

(q) "Taxes" shall mean (i) all federal, state, county and local sales, use, real and personal property, recordation and transfer taxes, (ii) all business and occupation taxes, and (iii) any interest, penalties and additions to tax attributable to any of the foregoing, but shall not include income and other taxes described in Section 2.2(c).

(r) "Washington Ruling" shall mean a ruling letter to be issued by the Washington State Department of Revenue in response to the request to be filed by Buyer no earlier than 45 days prior to the Closing seeking confirmation that no Washington State sales or

use tax will be due in respect of (i) the transfer of the Facilities by Sellers to the LLC, and (ii) the transfer of the LLC Interests by Sellers to Buyer.

Section 1.2 Index of Other Defined Terms. In addition to those terms defined above, the following terms shall have the respective meanings given thereto in the Sections indicated below:

<u>Defined Term</u>	<u>Section</u>
AAA	13.9(a)
Agreement	Preamble
Allocation Schedule	2.3
Approvals	8.4
Appurtenant Rights	2.1(b)
Assets	2.1
Buyer	Preamble
Buyer Affiliate	2.5
Chargeable Costs	5.3(a)
Charter Documents	3.2(a)
Claim Notice	12.6
Closing	10.2
Closing Date	10.2
Dam	Recital A
Deductible Amount	12.3(b)(ii)
Distribution Line	2.2(b)
Distribution Line Easement	Schedule 3.7
Equipment	2.1(c)
Escrow Agent	10.3
Excluded Assets	2.2
Facilities	Recital B
Facilities Purchase Price	2.3(a)
FERC	1.1(o)
Indemnitee	12.5
Indemnitor	12.5(a)
LLC Interests	2.1
LLC Transaction	10.1
Losses	12.3(a)
Management Agreement	5.3(a)
Net Book Value	2.3(a)
New Exception	5.4
O&M Costs	5.3(a)
O&M Costs Forecast	5.3(a)(v)
Owned Real Property	2.1(a)
Permitted Encumbrances	3.7
Reservoir	Recital A
Rules	13.9(a)
Sellers	Preamble

Supplemental Report	5.4
Termination Date	11.1(d)
Third Party Claims	12.5(a)
Title Insurer	5.4
Title Policy	8.6(a)
Title Report	5.4

ARTICLE II BASIC TRANSACTIONS

Section 2.1 Purchased Assets. On the terms and subject to the conditions contained in this Agreement, at the Closing Buyer shall, or shall cause the applicable Buyer Affiliate to, purchase, and Sellers shall sell, convey, assign, transfer and deliver to Buyer, or the applicable Buyer Affiliate, all of Sellers' rights, title and interest in the LLC (the "LLC Interests") after Sellers have contributed, conveyed, assigned, transferred and delivered to the LLC the following assets that (except to the extent otherwise noted) are used in the operations of the Facilities (the "Assets"), but excluding all Excluded Assets (as defined in Section 2.2):

(a) All of Sellers' rights, title and interest in and to the real property owned in fee (the "Owned Real Property") that is identified on Schedule 2.1(a), together with all buildings, fixtures and improvements located thereon (including all construction work-in-progress), reserving to PSE the Distribution Line described on Schedule 2.2(b).

(b) All of Sellers' easements, rights of way, licenses, franchises, water rights (including, without limitation, perfected, certificated, or otherwise, to divert, impound, consume or otherwise use waters of the State of Washington) and similar real property rights appurtenant to their ownership of the Owned Real Property or associated with their operation of the Facilities (collectively, the "Appurtenant Rights"), including, without limitation, those identified on Schedule 2.1(b).

(c) The fixed or mobile machinery and equipment, as well as similar items of tangible personal property, including, without limitation those items listed on Schedule 2.1(c) (collectively "Equipment") that are used, owned or leased by Sellers as of the Closing Date, and are used primarily in connection with the ownership or operation of the Facilities and its related support facilities (including Assets temporarily off-site for repair or other purposes), but excluding the Distribution Line described on Schedule 2.2(b).

(d) All of Sellers' rights, title and interest in and to and obligations arising under the Assigned Contracts including, without limitation, those identified on Schedule 2.1(d).

(e) All of Sellers' rights, title and interest in and to and obligations arising under all of the Licenses in favor of Sellers or any Sellers' Affiliates as of Closing that relate to or are necessary for or used in connection with the operation of the Facilities as heretofore operated by Sellers, all of such Licenses being included on Schedule 2.1(e), except for and to the extent that such Licenses relate to Excluded Assets; provided that such Licenses shall be included within the Assets only to the extent they relate exclusively to the Facilities and are lawfully transferable to the LLC.

(f) All of Sellers' rights, title and interest in and to all of the books, records, plans, sepias, drawings, instruction manuals and similar items, whether in written or electronic form, to the extent they relate to the Facilities or the operation thereof, and other procedural manuals of Sellers related primarily to the operation of the Facilities, subject to the rights of Sellers to make copies of and make non-exclusive use of the same and except to the extent such materials are subject to confidentiality or non-disclosure agreements in favor of third parties whose consent to transfer is not obtained.

(g) All of Sellers' rights, title and interest, if any, in and to unexpired warranties as of the Closing that are transferable to the LLC wholly owned by Buyer which Sellers have received from third parties which relate specifically to the Facilities, including, without limitation, warranties set forth in any equipment purchase agreement, construction agreement, lease agreement, consulting agreement or agreement for architectural or engineering services, it being understood that nothing in this paragraph shall be construed as a representation by Sellers that any such unexpired warranty remains enforceable.

(h) All of Sellers' rights, if any, to create, claim, obtain, register or otherwise hold any right to climate change, greenhouse gas or other renewable energy or emission credits or offsets relating to the Assets or their operation with respect to any period of time.

(i) Claims, choses in action, rights of recovery, rights of set-off, rights to refunds and similar rights of any kind in favor of any one or all of Sellers relating to or arising out of the period prior to Closing related to Washington State sales taxes included in the Chargeable Costs, whether such refund is received as a payment or as a credit against future Washington State sales taxes.

(j) Any of the foregoing owned or otherwise held by an Affiliate of a Seller.

Section 2.2 Excluded Assets. The Assets shall not include any of the assets, properties, rights, Licenses, or contracts of Sellers not specifically enumerated in Section 2.1 above, all such other assets, properties, rights, Licenses, and contracts collectively constituting "Excluded Assets," including, without limitation, the following specifically enumerated Excluded Assets:

(a) The fixtures, equipment and other personal property located at the Facilities comprising or constituting a part of the proprietary or specialized communications systems used by any or all of Sellers to communicate between and among their facilities or to transmit voltage and other control data and information utilized in any or all of Sellers' transmission and distribution systems.

(b) The distribution line (the "Distribution Line") described on Schedule 2.2(b) and the Distribution Line Easement described on Schedule 3.7.

(c) Claims, choses in action, rights of recovery, rights of set-off, rights to refunds and similar rights of any kind in favor of any one or all of Sellers relating to or arising out of the period prior to Closing, including, but not limited to, any refund related to real estate taxes paid prior to the Closing, whether such refund is received as a payment or as a credit

against future real estate or other taxes, excluding Washington State sales taxes included in the Chargeable Costs.

(d) Subject to the provisions of Section 2.4, all privileged or proprietary (to any or all of Sellers) materials, documents, information, media, methods, and processes owned by or licensed to any or all of Sellers and any and all rights to use same, including, without limitation, intangible assets of an intellectual property nature such as trademarks, service marks and trade names (whether or not registered), computer software that is proprietary to any or all of Sellers, or the use of which under the pertinent license therefor is limited to operation by any or all of Sellers or their Affiliates or on equipment owned by any or all of Sellers or their Affiliates, all promotional or marketing materials (including all marketing computer software), and any and all trade names under which Sellers or the Facilities prior to Closing have done business or offered programs, and all abbreviations and variations thereof.

(e) The rights of any or all of Sellers under any insurance policy (it being understood, however, that Sellers will have no obligation to take any action under any such policy to seek any recovery except at the reasonable request, and at the sole expense, of Buyer or to continue any such policies in force except to the extent expressly set forth herein).

(f) Any and all rights respecting computer and data processing hardware or firmware that is proprietary to any or all of Sellers and any computer and data processing hardware or firmware, whether or not located at the Facilities, that is part of a computer system the central processing unit of which is not located at the Facilities.

(g) Any and all data and information pertaining to customers of Sellers or their Affiliates, whether or not located at the Facilities.

(h) Miscellaneous assets, if any, identified by category on Schedule 2.2(h), which assets may have been utilized by Sellers in the ownership and operation of the Facilities but which are not intended to be included in the Assets and which are not otherwise enumerated above.

(i) Subject to Section 5.3 respecting certain expenses incurred in connection with the transactions contemplated hereby, any of Sellers' or their Affiliates' liabilities or obligations with respect to franchise taxes and with respect to foreign, federal, state or local taxes imposed upon or measured, in whole or in part, by the income for any period of Sellers or any member of any combined or consolidated group of companies of which any of Sellers are, or were at any time, a part, or with respect to interest, penalties or additions to any of such taxes, and any income, franchise, tax recapture, transfer tax, sales tax or use tax that may arise upon consummation of the transactions contemplated hereby and be due from or payable by Sellers, it being understood that neither the LLC nor Buyer shall be deemed to be Sellers' transferee with respect to any such tax liability.

Sellers may remove at any time or from time to time, up to 90 days following the Closing, any and all of the Excluded Assets from the Facilities (at Sellers' expense, but without charge by Buyer for storage), *provided* that Sellers shall do so in a manner that does not unduly or unnecessarily disrupt Buyer's normal business activities at the Facilities, and *provided further*

that Excluded Assets may be retained at the Facilities pursuant to easements, licenses or similar arrangements retained by Sellers and described above or otherwise in the Schedules to this Agreement.

Section 2.3 Facilities Purchase Price.

(a) The Facilities purchase price shall be \$7,570,373.16, which is PacifiCorp's net book value for the Facilities as of September 30, 2003 multiplied by 2.105 (as contemplated by Section 1.3(b) of the Management Agreement) ("Net Book Value"), adjusted for changes in such Net Book Value of the Facilities from September 30, 2003 to the Closing Date (the "Facilities Purchase Price").

(b) The adjustment described in Section 2.3(a) above shall be determined in accordance with U.S. GAAP and FERC accounting guidelines. The Facilities Purchase Price as so adjusted shall be communicated by written notice to Buyer not less than ten (10) Business Days prior to the Closing. Buyer shall, or shall cause one or more Buyer Affiliates to, pay to Sellers the Facilities Purchase Price in cash at the Closing by wire transfer of immediately available funds in U.S. dollars to an account specified in writing by Sellers to Buyer. Sellers shall give Buyer written notice of the account for the wire transfer not later than the tenth (10th) Business Day prior to the Closing Date.

(c) PacifiCorp and Buyer agree that for all purposes, except Washington property taxes and Washington sales taxes, the Facilities Purchase Price shall be allocated among the Assets in proportion to the Net Book Value as adjusted under this Section 2.3.

Section 2.4 License of Non-Transferred Intangible Assets. Although trade names of Sellers are Excluded Assets, such names appear on certain of the Assets, such as certain fixtures and Equipment, and on supplies, materials, stationery and similar consumable items which may be on hand at the Facilities at the Closing. Notwithstanding that such names are Excluded Assets, the LLC, Buyer and any Buyer Affiliates shall be entitled to use such consumable items for a period of three (3) months following the Closing and shall have up to six (6) months following the Closing to remove such names from fixed Assets, *provided* that none of such parties shall send correspondence or other materials to third parties on any stationery that contains a trade name or trademark of Sellers or any Affiliates of Sellers.

Section 2.5 Assignment of Rights and Obligations to Buyer Affiliate. For purposes of this Agreement, the term "Buyer Affiliate" shall refer to any Affiliate of Buyer to which any of Buyer's rights and obligations hereunder are assigned in compliance with the requirements of this Section. Notwithstanding any contrary provisions contained herein, the parties hereto agree that, prior to and after the Closing, Buyer, in its sole discretion, may assign any or all of its rights and obligations arising under this Agreement or any other agreement contemplated hereby to one or more Buyer Affiliates, *provided* that no such assignment shall relieve Buyer of any obligation or liability to Sellers hereunder or any other agreement contemplated hereby.

Section 2.6 Assumption of Liabilities. Buyer agrees to assume all liabilities related to the Facilities including, but not limited to, the Assigned Contracts and the Safety Program after Closing; *provided, however*, that the obligations set forth on Schedule 2.6 are not to be assumed

by Buyer and are to be released or otherwise discharged by Closing by Sellers pursuant to the terms and conditions of this Agreement.

Section 2.7 Water Flow Agreement. The Water Flow Agreement between Sellers and TransAlta Centralia Generation LLC dated May 4, 2000 is hereby extended to the Closing Date or date of termination of this Agreement.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLERS

Sellers hereby represent and warrant to Buyer, as of the date hereof, as follows, except as set forth in Schedules numbered in relation to the Sections set forth below:

Section 3.1 Authority and Enforceability. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby have been duly authorized by the board of directors or other applicable governing body of each Seller; no other corporate act or corporate proceeding on the part of any Seller is necessary to authorize this Agreement or any other agreement contemplated hereby or the transactions contemplated hereby and thereby. This Agreement has been and other agreements contemplated hereby will be, as of the Closing duly executed and delivered by each of Sellers, and this Agreement constitutes and such other agreements when executed and delivered will constitute, a valid and binding obligation of Sellers, enforceable against Sellers in accordance with its terms, except as it may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding may be brought.

Section 3.2 No Breach or Conflict. Subject to the provisions of Sections 3.3(a) and 3.3(b) below regarding private party and governmental consents, and except for any regulatory or licensing Laws applicable to the businesses and assets represented by the Facilities, the execution, delivery and performance by Sellers of this Agreement and any other agreements contemplated hereby do not:

(a) conflict with or result in a breach of any of the provisions of the Articles of Incorporation or Bylaws or similar charter documents (the "Charter Documents") of Sellers;

(b) contravene any Law presently in effect or cause the suspension or revocation of any License presently in effect, which affects or binds Sellers or any of their properties, except where such contravention, suspension or revocation will not have a Material Adverse Effect (as defined below) on the LLC Interests or the Assets and will not affect the validity or enforceability of this Agreement or any other agreement contemplated hereby or the validity of the transactions contemplated hereby and thereby; or

(c) conflict with or result in a breach of or a default (with or without notice or lapse of time or both) under any material agreement or instrument to which Sellers are a party or by which they or any of their properties may be affected or bound, the effect of which conflict,

breach, or default, either individually or in the aggregate, would be a Material Adverse Effect on the Assets or the LLC Interests.

Section 3.3 Approvals.

(a) Except as set forth on Schedule 3.3(a), the execution, delivery and performance by Sellers of this Agreement and any other agreements contemplated hereby (including the assignment of the non-governmental Assigned Contracts) do not require the authorization, consent or approval of any non-governmental third party of such a nature that the failure to obtain the same would have a Material Adverse Effect on the LLC Interests, the Assets or the Facilities substantially as they have heretofore operated.

(b) Except as set forth on Schedule 3.3(b), the execution, delivery and performance by Sellers of this Agreement and any other agreements contemplated hereby (including the assignment of any Assigned Contracts to which a Governmental Body is a party) do not require the authorization, consent, approval, certification, license or order of, or any filing, with, any court or Governmental Body of such a nature that the failure to obtain the same would have a Material Adverse Effect on the LLC Interests or the Assets.

Section 3.4 Licenses. Except as set forth on Schedule 3.4, all Licenses necessary for the operation of the Facilities at the location and in the manner presently operated, related thereto in any material respect or required in order to consummate or perform the transactions contemplated under this Agreement are set forth on Schedule 2.1(e). Except as identified on Schedule 3.4, all such Licenses are valid and in full force and effect and not subject to termination for default by notice or passage of time or both.

Section 3.5 Compliance with Law. Except as set forth on Schedule 3.5, and except for the matters that are the subject of Sections 3.4 and 3.6 and the Schedules, if any, related thereto, to Sellers' Knowledge, Sellers are in compliance in all material respects with all pertinent Laws and Licenses related to the ownership and operation of the LLC Interests or the Assets, other than violations that would not, individually or in the aggregate, have a Material Adverse Effect on the ownership, use or operation of the LLC Interests or the Assets or on the ability of Sellers to execute and deliver this Agreement or any other agreements contemplated hereby and consummate the transactions contemplated hereby and thereby.

Section 3.6 Hazardous Materials. To Sellers' Knowledge, except as disclosed on Schedule 3.6:

(a) There has not been a Release of Hazardous Material on or otherwise affecting the Assets (other than Releases involving de minimis quantities of Hazardous Materials) that: (i) constitutes an unremedied material violation of any Environmental Law by Sellers or by any third party if the effect of such violation by such third party imposes a current remediation obligation on the part of Sellers; (ii) currently imposes any material release-reporting obligations on Sellers under any Environmental Law that have not been or are not being complied with; or (iii) currently imposes any material clean-up or remediation obligations of Sellers under any Environmental Law.

(b) Sellers, during at least the last three (3) years, have complied, and currently are in compliance, in all material respects, with all Environmental Laws that govern the Assets;

(c) Sellers have all material Licenses required under Environmental Laws for its operation of the Assets, are in compliance in all material respects with all such Licenses and during the three (3) year period preceding the date of this Agreement have not received any notice that: (i) any such existing Licensing will be revoked; or (ii) any pending application for any new such License or renewal of any existing Licensing will be denied;

(d) Sellers have not received any currently outstanding written notice of any material proceedings, action, or other claim or liability arising under any Environmental Laws (including, without limitation, notice of potentially responsible party status under the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §§ 9601 et seq. or any state counterpart) from any Person or Governmental Body regarding the Assets; and

(e) No portion of the Assets has ever contained an underground storage tank, surface impoundment or similar device used for the management of wastewater, or other waste management unit dedicated to the disposal, treatment, or long-term (greater than 90 days) storage of Hazardous Materials.

Section 3.7 Title to Assets. Sellers have good, valid and marketable title to the LLC Interests and all tangible real and personal property included in the Assets to be sold, conveyed, assigned, transferred and delivered to the LLC, Buyer or a Buyer Affiliate, as the case may be, by Sellers, free and clear of all liens, charges, claims, pledges, security interests, equities, licenses and encumbrances of any nature whatsoever, except for those created or allowed to be suffered by Buyer or such Buyer Affiliate and except for the following: (i) the lien of current taxes not delinquent, (ii) liens and encumbrances listed on Schedule 3.7 (the "Permitted Encumbrances"), (iii) such consents, authorizations approvals and Licenses referred to in Sections 3.3(a), 3.3(b) and 3.4, (iv) liens, charges, claims, pledges, security, interests, equities and encumbrances which will be discharged or released either prior to, or substantially simultaneously with, the Closing Date (and which Sellers will cause to be discharged or released), and (v) the matters contained in the Assigned Contracts set forth on Schedule 2.1(d) and the Licenses set forth on Schedule 2.1(e).

Section 3.8 Contracts. Except for such matters which individually and in the aggregate do not have a Material Adverse Effect on the LLC Interests or the Assets, or except as otherwise disclosed on Schedule 3.8, to Sellers' Knowledge (a) there is no liability to any third party by reason of the default by Sellers under any Assigned Contract, (b) Sellers have not received notice that any Person intends to cancel or terminate any Assigned Contract nor are they otherwise subject to termination for default by notice or passage of time or both, and (c) all of the Assigned Contracts are in full force and effect; *provided* that notwithstanding clauses (a), (b) and (c) of this Section 3.8, Sellers make no separate representation or warranty under this Section respecting compliance with the provisions of Laws generally, Hazardous Materials, title to or condition of property, Licenses, environmental conditions or Environmental Laws.

Section 3.9 Litigation. Except for (a) ordinary, routine and non-material claims and litigation incidental to the businesses represented by the Assets (including, without limitation, actions for negligence, workers' compensation claims and the like), (b) Governmental Body inspections and reviews customarily made of businesses such as those operated from the Facilities, (c) non-material proceedings before any Governmental Body, (d) proceedings before any Governmental Body that are contemplated by this Agreement (as set forth on Schedule 3.3(b)), and (e) as set forth on Schedule 3.9, there are no actions, suits, claims or proceedings pending, or to Sellers' Knowledge, threatened against or affecting the LLC Interests or the Assets or relating to the operations of the Assets, at law or in equity, or before or by any Governmental Body.

Section 3.10 Brokers. No broker, finder, or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with this Agreement or the transactions contemplated hereby based upon any agreements or arrangements or commitments written or oral, made by or on behalf of Sellers.

Section 3.11 Assets Used in the Operation of the Facilities. Except as delineated on Schedule 3.11, and except for the Excluded Assets, there are no material assets or properties that are used in the conduct of the operations of the Facilities that are owned by Sellers or that individually or in the aggregate are reasonably necessary for the operation of the Facilities as currently operated by Sellers that are not included in the Assets.

Section 3.12 Option Rights. Except as delineated on Schedule 3.12, none of the Persons constituting Sellers, nor to Sellers' Knowledge any other Person, retains any rights of first refusal, option rights or other similar rights to purchase all or any portion of the LLC Interests or the Assets in connection with a contribution of the Assets to the LLC or a sale of the LLC Interests to Buyer pursuant to this Agreement.

Section 3.13 LLC Interests. The LLC Interests that Sellers will transfer to Buyer at the Closing constitute Sellers' entire interest in the LLC and the Assets.

Section 3.14 Liability. Prior to the Closing, the LLC has no direct or indirect liability, indebtedness, obligation, commitment, expense, claim, deficiency, liability for Taxes, guaranty or endorsement of any type, whether accrued, absolute, contingent, matured, unmatured, due or to become due or otherwise.

Section 3.15 Liabilities. Except as otherwise disclosed in this Agreement or on the Schedules attached hereto, to Sellers' Knowledge, there are no other material liabilities associated with the Facilities.

Section 3.16 Appurtenant Rights. Except as disclosed on Schedule 2.2(b), no Seller has any Appurtenant Rights associated with the Facilities that are not being conveyed hereunder or have not been previously conveyed to Buyer or an Affiliate of Buyer. Sellers have at all times taken all reasonable measures, and shall continue to do so through the Closing, to protect and maintain the Appurtenant Rights associated with the Facilities.

Section 3.17 Disregarded Entity. The LLC is and has at all times before and at Closing been a disregarded entity for federal income tax purposes and all applicable state income tax purposes.

Section 3.18 Regulatory Status. Neither Avista nor PSE is, as of the date of this Agreement, a registered holding company under PUHCA or an Affiliate of such a company, and PacifiCorp has received (or will receive as of the Closing) all SEC approvals, if any, required under PUHCA to consummate the transactions contemplated by this Agreement.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Sellers, as of the date hereof, as follows, except as set forth in Schedules numbered in relation to the Sections set forth below:

Section 4.1 Organization and Corporate Power. Buyer is a limited liability company duly incorporated and validly existing under the Laws of, and is authorized to exercise its limited liability company powers, rights and privileges and is in good standing in, the State of Washington and has full corporate power to carry on its business as presently conducted and to own or lease and operate its properties and assets now owned or leased and operated by it and to perform the transactions on its part contemplated by this Agreement and all other agreements contemplated hereby.

Section 4.2 Authority and Enforceability. The execution, delivery and performance of this Agreement and any other agreements contemplated hereby and the consummation of the transactions contemplated hereby and thereby have been duly authorized by the management committee or other applicable governing body of Buyer; no other corporate act or corporate proceeding on the part of Buyer is necessary to authorize this Agreement, any other agreement contemplated hereby, or the transactions contemplated hereby and thereby. This Agreement has been, and other agreements contemplated hereby will be, as of the Closing, duly executed and delivered by Buyer, and this Agreement constitutes, and such other agreements when executed and delivered will constitute, a valid and binding obligation of Buyer, enforceable against Buyer, in accordance with its terms, except as it may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding may be brought.

Section 4.3 No Breach or Conflict. Subject to the provisions of Sections 4.4(a) and 4.4(b) below regarding private party and governmental consents, and except for any regulatory or licensing Laws applicable to the businesses and assets represented by the Facilities, the execution, delivery and performance by Buyer and any Buyer Affiliate of this Agreement and any other agreements contemplated hereby do not:

(a) conflict with or result in a breach of any of the provisions of the Charter Documents of Buyer or any Buyer Affiliate;

(b) contravene any Law presently in effect or cause the suspension or revocation of any License presently in effect, which affects or binds Buyer or any Buyer Affiliate or any of their material properties; or

(c) conflict with or result in a breach of or default under any material agreement or instrument to which Buyer or any Buyer Affiliate is a party or by which it or they or any of their properties may be affected or bound.

Section 4.4 Approvals.

(a) Except as set forth on Schedule 4.4(a), the execution, delivery and performance by Buyer and any Buyer Affiliate of this Agreement and any other agreement contemplated hereby do not require the authorization, consent or approval of any non-governmental third party.

(b) Except as set forth on Schedule 4.4(b), the execution, delivery and performance by Buyer and any Buyer Affiliate of this Agreement and any other agreement contemplated hereby do not require the authorization, consent, approval, certification, license or order of, or any filing with, any court or Governmental Body, to consummate the transactions contemplated hereby and to permit Buyer to acquire the LLC Interests and the LLC to acquire the Assets.

Section 4.5 Litigation. Except as set forth on Schedule 4.5, there are no actions, suits, claims or proceedings pending, or to Buyer's Knowledge, threatened against Buyer or any Buyer Affiliate likely to impair the consummation of the transactions contemplated hereby or otherwise material to such transactions or to Buyer or any Buyer Affiliate, and Buyer is not aware of facts likely to give rise to such litigation.

Section 4.6 Brokers. No broker, finder, or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with this Agreement or the transactions contemplated hereby based upon any agreements or arrangements or commitments, written or oral, made by or on behalf of Buyer.

Section 4.7 Exculpation. BUYER AGREES THAT EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT, (i) THE ASSETS ARE BEING SOLD ON AN "AS IS" "WHERE IS" BASIS AND IN "WITH ALL FAULTS" CONDITION, (ii) WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLERS MAKE NO WRITTEN OR ORAL REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO THE FITNESS, CONDITION, MERCHANTABILITY, OR SUITABILITY OF THE ASSETS FOR ANY PARTICULAR PURPOSE OR THE OPERATION OF THE ASSETS BY BUYER, AND (iii) BUYER WAIVES ALL RIGHTS TO CONTRIBUTION, OFFSETS AND DAMAGES WHICH IN ANY MANNER RELATE TO THE COMPLIANCE OF THE FACILITIES WITH ANY LAWS.

Section 4.8 Financing. Buyer has liquid capital or committed sources therefor sufficient to permit it and the pertinent Buyer Affiliates, if any, and the LLC to perform timely its or their obligations hereunder and under any other agreements contemplated hereby.

Section 4.9 No Knowledge of Sellers' Breach. Buyer has no Knowledge of any breach of any representation or warranty by Sellers or of any other condition or circumstance that would excuse Buyer from its timely performance of its obligation hereunder. Buyer shall notify Sellers as promptly as practicable if any such information comes to its attention prior to Closing.

Section 4.10 Qualified for Licenses. To Buyer's Knowledge, Buyer and any pertinent Buyer Affiliate and the LLC are, or by Closing will be, qualified to obtain any Licenses necessary for the operation by Buyer, such Buyer Affiliate or the LLC of the Facilities as of the Closing in substantially the same manner as the Facilities are presently operated by Sellers.

Section 4.11 Buyer Affiliate.

(a) As of the Closing, each Buyer Affiliate will be an entity duly organized, validly existing and in good standing under the Laws of its state of organization. Each Buyer Affiliate will at the Closing have all requisite power and authority to carry on its business as then conducted and to own or lease and operate its properties and assets then owned or leased and operated by it and to perform the transactions on its part contemplated by this Agreement and all other agreements contemplated hereby.

(b) The governing body of each Buyer Affiliate and, if required, its shareholders or other owners, will have, by the date of the Closing, duly and effectively authorized (i) the purchase of the LLC Interests to be purchased by such Buyer Affiliate, and (ii) the execution, delivery and performance of this Agreement and any other agreements contemplated hereby and thereby to which such Buyer Affiliate is a party. No other organizational act or proceeding on the part of any Buyer Affiliate, its governing body or its shareholders or other owners will be necessary to authorize this Agreement or other agreement contemplated hereby and thereby or the transactions contemplated hereby and thereby.

(c) This Agreement and all other agreements contemplated hereby and thereby to which any Buyer Affiliate is a party will, as of the Closing, be duly executed and delivered by each such Buyer Affiliate, and each such agreement, when executed and delivered will constitute, a valid and binding obligation of such Buyer Affiliate, enforceable against such Buyer Affiliate in accordance with its terms, except as it may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and that the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding may be brought.

ARTICLE V COVENANTS OF EACH PARTY

Section 5.1 Efforts to Close.

(a) Reasonable Efforts. Subject to the terms and conditions herein provided including, without limitation, Articles 8 and 9 hereof, each of the parties hereto agrees to take all reasonable actions and to do all reasonable things necessary, proper or advisable under applicable Laws to consummate and make effective, as soon as reasonably practicable, the

transactions contemplated hereby, including the satisfaction of all conditions thereto set forth herein. Such action shall also include, without limitation, exerting their reasonable efforts to obtain the consents, authorizations and approvals of all private parties and Governmental Bodies whose consent is reasonably necessary to effectuate the transactions contemplated hereby, and effecting all other necessary registrations and filings. Sellers shall cooperate with Buyer's efforts to obtain the requisite Licenses and regulatory consents, provided Sellers shall not be obligated to incur any liabilities or assume any obligations in connection therewith. Other than Buyer's and Sellers' obligations under Section 5.3, no party shall have any liability to the other parties if, after using its reasonable commercial efforts, it is unable to obtain any consents, authorizations or approvals necessary for such party to consummate the transactions contemplated hereby. As used herein, the terms "reasonable efforts" or "reasonable actions" do not include the provision of any consideration to any third party, the commencement of litigation or the suffering of any economic detriment to a party's ongoing operations for the procurement of any such consent, authorization or approval except for the costs of gathering and supplying data or other information or making any filings, the fees and expenses of counsel and consultants and the customary fees and charges of Governmental Bodies. Furthermore, Sellers and Buyer shall execute and deliver such other agreements, documents and instruments as are required to be delivered by such party prior to Closing to effectuate the transactions contemplated by this Agreement.

(b) Control Over Proceedings.

(i) All analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party before any Governmental Body (other than any governing board or other governing body of any of the publicly owned utility Sellers) in connection with the approval of the transactions contemplated hereby, or any other matter before any Governmental Body relating to the LLC Interests or the Assets shall be subject to the joint review of Buyer and Sellers, it being the intent that the parties will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any such analysis, appearance, presentation, memorandum, brief, argument, opinion and proposal; *provided* that nothing will prevent a party from responding to a subpoena or other legal process as required by Law or submitting factual information in response to a request therefor. Each party will promptly provide the others with copies of all written communications from Governmental Bodies relating to the approval or disapproval of the transactions contemplated by this Agreement. Nothing in this Agreement shall limit Buyer's ability to intervene in regulatory proceedings related to the LLC Interests or the Assets.

(ii) Notwithstanding the foregoing, Sellers shall not make any change in the Safety Program, which is attached hereto as Exhibit A, without Buyer's prior written consent (which Buyer shall not unreasonably withhold, condition or delay). If Sellers wish to make a change in the Safety Program, they shall first propose the change to Buyer in writing. Buyer shall have ten (10) Business Days in which to disapprove of the proposed change by written notice to Sellers explaining Buyer's reasons for disapproving. If Buyer has not disapproved of the change within the ten (10) Business Day period, it shall be deemed approved.

(iii) Notwithstanding the foregoing, to the extent that FERC requires a change in the Safety Program and such change was not sought by Sellers, Sellers shall have the right to implement such change in compliance with directives from FERC, *provided however*, Sellers shall promptly notify Buyer of such directives and shall allow Buyer to participate in any communication or proceedings related to the implementation of such change.

Section 5.2 Post-Closing Cooperation. After the Closing, upon prior reasonable written request, each party shall cooperate with the other parties in furnishing records, information, testimony and other assistance in connection with any inquiries, actions, audits, proceedings or disputes involving any of the parties hereto (other than in connection with disputes between the parties hereto) and based upon contracts, arrangements or acts of Sellers which were in effect or occurred on or prior to Closing and which relate to the LLC Interests or the Assets, including, without limitation, arranging discussions with (and the calling as witness of) officers, directors, employees, agents, and representatives of the LLC, Buyer and any Buyer Affiliates. The requesting party shall in each instance be responsible for payment of any costs and expenses reasonably incurred by any other party in affording such cooperation, including any out-of-pocket expenses reasonably incurred by such party to third parties; *provided, however*, that in no event shall the costs and expenses for which any such requesting party shall be liable include any wages or other benefits paid or provided by any such cooperating party to its officers, directors or employees.

Section 5.3 Expenses. Whether or not the transactions contemplated hereby are consummated, except as otherwise provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby or thereby shall be paid by the party incurring such expenses except as follows:

(a) O&M Costs. The "O&M Costs" shall be equal to 100% of the Chargeable Costs incurred on or after May 4, 2002 until the Closing. "Chargeable Costs" shall have the same meaning given to that term in the Management Agreement between Sellers and TransAlta Centralia Generation LLC, dated May 4, 2000, which is hereby extended to the Closing Date or date of termination of this Agreement (the "Management Agreement"); *provided, however*, (i) Chargeable Costs shall also include Sellers' costs associated with the Safety Program to the extent such costs are incurred while the Management Agreement remains in effect, and (ii) except as otherwise provided in Section 5.3(a)(ii), the \$300,000 annual cap on Chargeable Costs contemplated in Section 4.2 of the Management Agreement shall cease to apply effective on and after May 4, 2002.

(i) O&M Costs Payment Due at Execution. Unless otherwise agreed to by PacifiCorp and Buyer in writing, on the execution date of this Agreement Buyer shall, or shall cause one or more Buyer Affiliates to, pay to PacifiCorp \$477,067.46 (which is the total amount of the O&M Costs from May 4, 2002 to September 30, 2003) in cash by wire transfer of immediately available funds in U.S. dollars to an account specified in writing by PacifiCorp to Buyer. PacifiCorp shall give Buyer written notice of the account for the wire transfer not later than the tenth (10th) Business Day prior to the execution date of this Agreement.

(ii) O&M Costs Payment Due at Closing or Termination. PacifiCorp will inform Buyer in writing, at least ten (10) Business Days prior to the Closing Date, or within ten (10) Business Days following the date of termination of this Agreement, as the case may be, of the amount of O&M Costs PacifiCorp has incurred and received invoices for after September 30, 2003 that are not included in the O&M Costs payment due at execution under Section 5.3(a)(i). Buyer shall, or shall cause one or more Buyer Affiliates to, pay to PacifiCorp such amount in cash by wire transfer of immediately available funds in U.S. dollars not later than the Closing Date, or ten (10) Business Days following Buyer's receipt of PacifiCorp's notice of the amount due after termination, as the case may be, to an account specified in writing by PacifiCorp to Buyer. PacifiCorp shall give Buyer written notice of the account for the wire transfer not later than the tenth (10th) Business Day prior to the Closing Date, or concurrently with PacifiCorp's notice of the amount due after termination, as the case may be. Notwithstanding the foregoing, if this Agreement is terminated by Buyer or Sellers pursuant to Section 11.1(b); by Buyer pursuant to Section 11.1(c); by Buyer pursuant to Section 11.1(d)(ii)(B); or by Buyer pursuant to Section 5.4, 8.6(b), 8.7(a) or 8.7(b); then the \$300,000 annual cap on Chargeable Costs contemplated in Section 4.2 of the Management Agreement shall be reinstated effective September 30, 2003.

(iii) O&M Costs Payment Due Post-Closing or Post-Termination. PacifiCorp will inform Buyer in writing, within 90 days after the Closing Date or date of termination of this Agreement, of the amount of O&M Costs PacifiCorp has incurred prior to the Closing Date or date of termination, and received invoices for prior to or after the Closing Date or date of termination, as the case may be, that are not included in the O&M Costs payment due at Closing or termination under Section 5.3(a)(ii). Buyer shall, or shall cause one or more Buyer Affiliates to, pay to PacifiCorp such amount in cash by wire transfer of immediately available funds in U.S. dollars not later than the tenth (10th) Business Day after Buyer's receipt of PacifiCorp's notice of the amount due, to an account specified in writing by PacifiCorp to Buyer. PacifiCorp shall give Buyer written notice of the account for the wire transfer not later than the tenth (10th) Business Day prior to the Closing Date, or concurrently with PacifiCorp's notice of the amount due after termination, as the case may be. The payment schedule set out in Sections 5.3(a)(ii) and 5.3(a)(iii) is in lieu of the monthly invoicing and payment schedule contemplated by Sections 4.1 and 4.2 of the Management Agreement.

(iv) Safety Program. In order to comply with the Safety Program, Sellers have determined to initiate actions necessary to implement the Safety Program. Until the Closing Date or date of termination of this Agreement, PacifiCorp will use commercially reasonable efforts to negotiate and implement a reasonable Safety Program for the Facilities. Sellers will inform and consult with Buyer during the Safety Program on all matters related to the Safety Program including, costs and projected costs associated with the Safety Program, the schedule for the Safety Program, the scope of the Safety Program and correspondence with FERC.

(v) O&M Costs Forecast. PacifiCorp shall make reasonable efforts to keep Buyer promptly informed about O&M Costs and shall provide Buyer with a three (3) month forecast of O&M Costs expenditures updated on a monthly basis between

execution of this Agreement and the Closing Date ("O&M Costs Forecast"). The first such three (3) month O&M Costs Forecast is attached hereto as Exhibit B. The O&M Costs Forecast shall include as a line item Sellers' costs for designing and implementing the Safety Program during the period covered by the O&M Costs Forecast. Sellers shall not make O&M Costs expenditures in excess of 110% of the total amounts and schedules set forth in the O&M Costs Forecast without Buyer's prior written consent (which Buyer shall not unreasonably withhold, condition or delay). Buyer shall have the right to audit the O&M Costs Forecast and associated invoices, which right shall not be exercised more than once every six (6) months plus one audit prior to each payment contemplated by this Section 5.3(a).

(b) Costs associated with a preliminary title report and a title insurance policy shall be borne by Sellers up to the costs that would have been incurred had the title policy been standard coverage policies of title insurance, and the remaining costs, if any, including costs for extended coverage, any endorsements and any survey shall be borne by Buyer.

(c) Recording costs and charges respecting the transfer of the real property to the LLC (and escrow fees) will be borne one-half by Buyer and one-half by Sellers.

(d) All fees and charges of Governmental Bodies shall be borne by the party incurring the fee or charge, except that all fees and charges of Governmental Bodies in connection with the transfer, issuance or authorization of any License shall be borne by Buyer.

(e) All liabilities or obligations for Taxes in the nature of sales or use taxes or real estate excise taxes incurred as a result of the contribution of the Assets to the LLC or the sale of the LLC Interests hereunder to Buyer shall be borne by Buyer.

(f) Each party will bear its own expenses in preparing regulatory filings and seeking required consents and approvals.

(g) All costs of any "Phase I" and "Phase II" (if recommended by the Phase I) environmental site assessments to be conducted by Buyer's representatives and any additional environmental investigations shall be borne by Buyer.

All such charges and expenses shall be promptly settled between the parties at the Closing or upon termination or expiration of further proceedings under this Agreement, or with respect to such charges and expenses not determined as of such time, as soon thereafter as is reasonably practicable.

Section 5.4 New Exceptions to Title. The Parties acknowledge receipt of a Commitment for Title Insurance issued by Stewart Title Guaranty Company (the "Title Insurer") (Commitment No. 108490-BJ) dated July 15, 2003 (the "Title Report"). The Parties anticipate that after the date of this Agreement, the Title Insurer may issue a supplemental title report or reports (each, a "Supplemental Report") with respect to the Owned Real Property. If a Supplemental Report discloses an exception to title that is not a Permitted Encumbrance and is not a monetary lien or an interest of Washington Irrigation and Development Company that is to be satisfied or removed by Sellers on or before the Closing Date (a "New Exception"), Buyer

shall have 30 days after receipt of the Supplemental Report in which to notify Sellers in writing of Buyer's disapproval of any New Exception shown in the Supplemental Report. If Buyer fails to so notify Seller of its disapproval of any New Exception within such period, such exception shall be deemed a Permitted Encumbrance and set forth on Schedule 3.7. If Buyer notifies Seller of its disapproval of one or more New Exceptions, Seller shall have sixty (60) days to (i) remove the disapproved exception(s) and proceed to Closing; or (ii) refuse to remove the disapproved exception(s), in which case Buyer may elect to waive its objection and proceed to Closing or, if such exception would adversely affect the operation of the Facilities after Closing for their intended purposes, terminate this Agreement without liability to either Buyer or Sellers. This Section 5.4 sets forth Buyer's exclusive remedy with respect to any New Exception to title.

ARTICLE VI ADDITIONAL COVENANTS OF SELLERS

Sellers hereby additionally covenant, promise and agree as follows:

Section 6.1 Access. PacifiCorp, on behalf of Sellers, will afford Buyer, and the counsel, accountants and other representatives of Buyer, reasonable access, throughout the period from the date hereof to the Closing Date or date of termination of this Agreement, to the Assets and the managerial and technical personnel associated therewith and all the properties, books, contracts, commitments, and records included in the Assets which Sellers have in their possession or to which they have access in order to facilitate transition planning. Such access shall be afforded to Buyer after no less than 24 hours' prior written notice, during normal business hours and only in such manner as not to disturb or interfere with the normal operation of Sellers. PacifiCorp's covenants under this Section are made with the understanding that Buyer shall use all such information in compliance with all Laws. Notwithstanding the foregoing, Buyer acknowledges and agrees that Buyer's access to the books and records of the Assets shall not include access to, and PacifiCorp shall not have any obligation to deliver to Buyer, any information concerning any alleged dispute or any pending litigation, investigation or proceeding involving Sellers or their Affiliates that is protected by or subject to the attorney-client privilege, or the disclosure of which is restricted by an agreement entered into in connection with such dispute, litigation, investigation or proceeding or an order entered by any court.

Section 6.2 Updating. Sellers shall notify Buyer of any changes or additions to any of Sellers' Schedules to this Agreement with respect to the Assets by the delivery of updates thereof, if any, as of a reasonably current date prior to the Closing. No such updates made pursuant to this Section shall be deemed to cure an inaccuracy of any representation or warranty made in this Agreement as of the date hereof, unless Buyer specifically agrees thereto in writing nor shall any such notification be considered to constitute or give rise to a waiver by Buyer of any condition set forth in this Agreement. Without limiting the generality of the foregoing, Sellers shall notify Buyer promptly of the occurrence of any material casualty, physical damages, destruction or physical loss respecting, or, to Sellers' Knowledge, material adverse change in the physical condition of, the Facilities, not including ordinary wear and tear and routine maintenance. Sellers will promptly report to Buyer with respect to matters and events that, to Sellers' Knowledge, could have a Material Adverse Effect on the LLC Interests or the Assets and shall timely provide Buyer with copies of relevant documents and notices. Sellers shall consult

and cooperate with Buyer in good faith in regard to such matters and events and incorporate Buyer's suggestions where they deem reasonably appropriate.

Section 6.3 Conduct Pending Closing. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Buyer shall otherwise consent in writing, which consent shall not be unreasonably withheld or delayed, and except for actions taken pursuant to Assigned Contracts, or which are required by Law, License or arise from or are related to the anticipated transfer of the Assets or as otherwise contemplated by this Agreement or disclosed on Schedule 6.3 or another Schedule to this Agreement, Sellers shall:

(a) Operate and maintain the Assets in a workmanlike manner and only in the usual and ordinary course, materially consistent with practices followed prior to the execution of this Agreement;

(b) Except as required by their terms, not amend, terminate, renew, or renegotiate any existing material Assigned Contract or enter into any new Assigned Contract, except in the ordinary course of business and consistent with practices of the recent past, or default (or take or omit to take any action that, with or without the giving of notice or passage of time, would constitute a default) in any of their obligations under any such contracts;

(c) Not (i) sell, lease, transfer or dispose of, or make any contract for the sale, lease, transfer or disposition of, the LLC Interests or any assets or properties which would be included in the Assets, other than sales in the ordinary course of business which would not individually, or in the aggregate, have a Material Adverse Effect upon the operations or value of the Facilities or the LLC Interests; (ii) incur, assume, guaranty, or otherwise become liable in respect of any indebtedness for money borrowed which would result in the LLC or Buyer assuming such liability hereunder after the Closing; (iii) delay the payment and discharge of any liability because of the transactions contemplated hereby; or (iv) encumber or voluntarily subject to any lien any Asset or LLC Interest (except for Permitted Encumbrances); or (v) sell, lease, transfer or dispose of, to any Seller or any Affiliate of any Seller, any LLC Interest or any assets or properties which would be included in the Assets, or remove any such assets or property to or for the benefit of any Seller or any Affiliate of any Seller;

(d) Maintain in force and effect the material property and liability insurance policies related to the Assets;

(e) Subject to Section 6.2, not take any action which would cause any of Sellers' representations and warranties set forth in Article 3 to be materially false as of the Closing;

Provided that nothing in this Section shall (i) obligate Sellers to make expenditures other than in the ordinary course of business and consistent with good utility practices (including, without limitation, compliance with Laws, Licenses and Assigned Contracts) of the recent past or to otherwise suffer any economic detriment, (ii) preclude Sellers from paying, prepaying or otherwise satisfying any liability, (iii) preclude Sellers from incurring any liabilities or obligations to any third party in connection with obtaining such party's consent to any

transaction contemplated by this Agreement or any other agreement contemplated hereby, or (iv) preclude Sellers from instituting or completing any program designed to promote compliance or comply with Laws or other good business practices respecting the Facilities.

Section 6.4 State PUC Determinations. Each of Avista, PacifiCorp and PSE shall seek a specific determination that allowing the Facilities to be an "eligible facility" within the meaning of Section 32(a)(2) of PUHCA will (a) benefit consumers, (b) is in the public interest, and (c) does not violate state Laws, from (x) each State PUC with jurisdiction over any of such Seller's rates or charges for, or in connection with, the construction of the Facilities, or for electric energy produced by the Facilities (other than any portion of a rate or charge which represents recovery of the cost of a wholesale rate or charge for electric energy produced by the Facilities) that was in effect as of October 25, 1992, and (y) if such Seller is an Affiliate of a registered holding company under PUHCA, any other State PUC having jurisdiction over the rates and charges of the registered holding company's Affiliates.

Section 6.5 Disregarded Entity Documentation. Sellers shall, promptly and timely after the Closing, deliver to Buyer a copy of the notification received from the Internal Revenue Service approving the classification of the LLC as a disregarded entity, as contemplated in Section 3.17.

ARTICLE VII ADDITIONAL COVENANTS OF BUYER

Section 7.1 Resale Certificate. Buyer agrees, and will cause each Buyer Affiliate, to furnish to Sellers any resale certificate or certificates or other similar documents reasonably requested by Sellers to comply with pertinent sales and use tax Laws.

Section 7.2 Conduct Pending Closing. Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, unless Sellers shall otherwise consent in writing, which consent shall not be unreasonably withheld or delayed, and except for actions which are required by Law or arise from or are related to the anticipated transfer of the LLC Interests and the Assets, Buyer shall not take any action which would cause any of Buyer's representations and warranties set forth in Article 4 to be materially false as of the Closing.

Section 7.3 EWG Application. Buyer shall, either prior to the Closing, concurrently with the Closing or promptly and timely after the Closing (as appropriate), file with FERC with respect to the LLC Interests and the Assets (i) an exempt wholesale generator application, and (ii) a qualifying facility self certification; *provided, however*, Closing shall not await any decision or further action by FERC.

ARTICLE VIII BUYER'S CONDITIONS TO CLOSING

The obligations of Buyer to consummate the transactions contemplated with respect to the LLC Interests and the Facilities shall be subject to fulfillment at or prior to the Closing of the following conditions, unless Buyer waives in writing such fulfillment.

Section 8.1 Performance of Agreement. Except for such matters which individually and in the aggregate do not have a Material Adverse Effect on the Facilities or on the Assets or the LLC Interests, Sellers shall have performed in all material respects their agreements and obligations contained in this Agreement required to be performed on or prior to the Closing.

Section 8.2 Accuracy of Representations and Warranties. The representations and warranties of Sellers set forth in Article 3 of this Agreement shall be true in all material respects as to the Assets or the LLC Interests in question and as of the date of this Agreement (unless the inaccuracy or inaccuracies which would otherwise result in a failure of this condition have been cured as of the Closing) and as of the Closing (as updated by the revising of Schedules contemplated by Section 6.2) as if made as of such time, provided that any such update shall not have disclosed any change in the physical condition, ownership, or transferability of the Assets or the LLC Interests that would have a Material Adverse Effect on the Assets or the LLC Interests.

Section 8.3 Officers' Certificate. Buyer shall have received from Sellers an officers' certificate, executed on behalf of each Seller by its chief executive officer, president, vice president, chief financial officer or treasurer (in his or her capacity as such) dated the Closing Date and stating that to the Knowledge of such individual, the conditions in Sections 8.1 and 8.2 above have been met with respect to such Seller.

Section 8.4 Approvals. All approvals, consents, authorizations and waivers from Governmental Bodies (as delineated on Schedules 3.3(b) and 4.4(b)) and all approvals, consents, authorizations and waivers from other third parties (collectively "Approvals") required for Sellers to transfer the Assets to the LLC and for Buyer to purchase the LLC Interests and operate the Facilities materially in accordance with the manner in which they were operated by Sellers prior to the Closing, shall have been obtained and (if Buyer is affected by any such approval) shall be in form and substance (including the regulatory treatment and financial impacts thereof on Buyer) satisfactory to Buyer in its reasonable discretion.

Section 8.5 No Restraint. There shall be no:

(a) Injunction, restraining order or order of any nature issued by any court of competent jurisdiction or Governmental Body which directs that the transactions contemplated hereby shall not be consummated as herein provided or compels or would compel Buyer to dispose of or discontinue, or materially restrict the operations of, the Facilities or any significant portion of the Assets with respect thereto or the LLC Interests as a result of the consummation of the transactions contemplated hereby;

(b) Suit, action or other proceeding by any Governmental Body pending or threatened (pursuant to a written notification), wherein such complainant seeks the restraint or prohibition of the consummation of the transactions contemplated hereby or seeks to compel, or such complainant's actions would compel, Buyer to dispose of or discontinue, or materially restrict the operations of, the Facilities or any significant portion of the Assets or the LLC Interests as a result of the consummation of the transactions contemplated hereby; or

(c) Action taken, or Law enacted, promulgated or deemed applicable to the transactions contemplated hereby, by any Governmental Body which would render the purchase and sale of the LLC Interests illegal or which would threaten the imposition of any penalty or material economic detriment upon Buyer if such purchase and sale were consummated;

Provided that the parties shall use their reasonable efforts to litigate against, and to obtain the lifting of, any such injunction, restraining or other order, restraint, prohibition, action, suit, Law or penalty.

Section 8.6 Title Insurance.

(a) Title Policy. The commitment by the Title Insurer (or an Affiliate thereof) or other title company mutually acceptable to the parties to issue at regular rates an ALTA owner's, or lessee's, as the case may be, extended coverage policy of title insurance (1990 Form B) in the coverage amount of \$3,800,000.00 (the "Title Policy"), with the general survey and creditors' rights exceptions removed, showing title to such interests in such real property vested in the LLC. Such Title Policy shall show title vested in the LLC, subject only to the Permitted Encumbrances.

(b) Evidence of Commitment. The commitment of the Title Insurer to issue the Title Policy shall be evidenced either by the issuance thereof at the Closing or by the Title Insurer's delivery of written commitments or binders, dated as of the Closing, to issue such Title Policy within a reasonable time after the Closing Date, subject to actual transfer of the real property in question. If the Title Insurer is unwilling to issue any such Title Policy, it shall be required to provide Buyer and Sellers, in writing, notice setting forth the reason(s) for such unwillingness as soon as practicable. Sellers shall have the right to seek to cure any defect which is the reason for such unwillingness, and to extend the Closing and the Termination Date, if necessary, for a period of up to ten (10) Business Days to provide to Sellers the opportunity to cure. In the event that, despite Sellers' efforts to cure, the Title Insurer remains unwilling to issue any such Title Policy on the Closing Date (as may be extended as provided herein), then Buyer, at its option, may terminate this Agreement. Notwithstanding the foregoing, Buyer or the pertinent Buyer Affiliate may accept such title to any such property interests as Sellers may be able to convey, and such title insurance with respect to the same as the Title Insurer is willing to issue, in which case such interests shall be conveyed as part of the Assets without reduction of the Facilities Purchase Price or any credit or allowance against the same and without any other liability on the part of Sellers.

Section 8.7 Casualty; Condemnation.

(a) Casualty. If any part of the Facilities is damaged or destroyed (whether by fire, theft, vandalism or other casualty) in whole or in part prior to the Closing, and the Net Book Value of the damaged or destroyed Assets or the cost of repair of the Assets that were damaged or destroyed is less than 15 percent of the aggregate Facilities Purchase Price, Sellers shall, at their option, either (i) reduce the Facilities Purchase Price by the lesser of the Net Book Value of the Assets damaged or destroyed (such value to be determined as of the date immediately prior to such damage or destruction), or the estimated cost to repair or restore the same, (ii) upon the Closing, transfer the proceeds or the rights to the proceeds of applicable insurance to Buyer,

provided that the proceeds or the rights to the proceeds are obtainable without delay and are sufficient to fully restore the damaged or destroyed Assets, or (iii) repair or restore such damaged or destroyed Assets and, at Sellers' election, delay the Closing and the Termination Date for a reasonable time necessary to accomplish the same. If any part of the Assets related to the Facilities are damaged or destroyed (whether by fire, theft, vandalism or other cause or casualty) in whole or in part prior to the Closing and the lesser of the Net Book Value of such Assets or the cost of repair is greater than 15 percent of the aggregate Facilities Purchase Price, then Buyer may elect to terminate this Agreement or require Sellers upon the Closing to transfer the proceeds (or the right to the proceeds) of applicable insurance to Buyer and Buyer may restore or repair the Assets.

(b) Condemnation. From the date hereof until the Closing, in the event that any material portion of the Facilities becomes subject to or is threatened with any condemnation or eminent domain proceedings, then Buyer, at its option, may, (i) if such condemnation, if successful, would not practically preclude the operation of the balance of the Facilities for the purposes for which it was intended, elect to terminate this Agreement with respect only to that part which is condemned or threatened to be condemned with a reduction in the Facilities Purchase Price determined as provided in Section 8.7(a) above, or (ii) if such condemnation, if successful, would practically preclude the operation of the balance of the Facilities for purposes for which it is intended, elect to terminate this Agreement.

Section 8.8 Receipt of Other Documents. Buyer shall have received the following:

(a) Copies of all current Licenses relevant to operation of the Facilities and all third party and Governmental Body consents, permits and authorizations that Sellers have received in connection with this Agreement and any other agreement contemplated hereby and the transactions contemplated hereby and thereby to occur at the Closing; and

(b) All other documents, instruments and writings required to be delivered to Buyer at or prior to Closing pursuant to the Agreement and such other certificates of authority and documents as Buyer reasonably requests.

Section 8.9 All Sellers. All of the Persons constituting Sellers shall have delivered all documents, instruments and writings required to be delivered to Buyer at or prior to Closing pursuant to this Agreement and none of the Persons constituting Sellers shall have retained any rights, title or interest in any of the Assets or the LLC Interests except for the Excluded Assets.

Section 8.10 Material Adverse Effect. There shall not have been an impairment of any Asset or the LLC Interests, as a result of a degradation of its physical condition, a change in Law, a change to, modification in or amendment to (by order or otherwise) any License, or a provision of any Approval that could reasonably be expected to have a Material Adverse Effect on the LLC Interests or Buyer's ability to operate the Facilities.

Section 8.11 LLC Contribution. Sellers shall have contributed, transferred, conveyed and assigned all rights, title and interest in the Assets to the LLC in a manner and in form and substance reasonably satisfactory to Buyer.

ARTICLE IX SELLERS' CONDITIONS TO CLOSING

The obligations of Sellers to consummate the transactions contemplated hereby with respect to the LLC Interests and the Facilities shall be subject to the fulfillment at or prior to the Closing of the following conditions, unless Sellers waive in writing such fulfillment.

Section 9.1 Performance of Agreement. Buyer shall have performed in all material respects its agreements and obligations contained in this Agreement required to be performed on or prior to the Closing.

Section 9.2 Accuracy of Representations and Warranties. The representations and warranties of Buyer set forth in Article 4 of this Agreement shall be true in all material respects as of the date of this Agreement (unless the inaccuracy or inaccuracies which would otherwise result in a failure of this condition have been cured by the Closing) and as of the Closing as if made as of such time.

Section 9.3 Officers' Certificate. Sellers shall have received from Buyer an officers' certificate, executed on Buyer's behalf by its chief executive officer, president, chief financial officer or treasurer (in his or her capacity as such) dated the Closing Date and stating that to the Knowledge of such individual, the conditions in Sections 9.1 and 9.2 above have been met.

Section 9.4 Approvals. All approvals, consents, authorizations and waivers from Governmental Bodies as delineated on Schedule 3.3(b) shall have been obtained in form and substance (including the regulatory treatment and financial impacts thereof) satisfactory to each Seller affected by any such approval in its reasonable discretion. All approvals, consents, authorizations and waivers from other third parties required for Sellers to transfer the Assets to the LLC and for Buyer to purchase the LLC Interests shall have been obtained.

Section 9.5 No Restraint. There shall be no:

- (a) Injunction, restraining order or order of any nature issued by any court of competent jurisdiction or Governmental Body which directs that the transactions contemplated hereby shall not be consummated as herein provided;
- (b) Suit, action or other proceeding by any Governmental Body pending or threatened (pursuant to a written notification), wherein such complainant seeks the restraint or prohibition of the consummation of the transactions contemplated hereby or otherwise constrains consummation of such transactions on the terms contemplated herein; or
- (c) Action taken, or Law enacted, promulgated or deemed applicable to the transactions contemplated hereby, by any Governmental Body which would render the purchase and sale of the LLC Interests, the Facilities and related Assets illegal or which would threaten the imposition of any penalty or material economic detriment upon Sellers if such transactions were consummated;

Provided that the parties will use their reasonable efforts to litigate against, and to obtain the lifting of, any such injunction, restraining or other order, restraint, prohibition, action, suit, Law or penalty.

Section 9.6 Receipt of Other Documents. Sellers shall have received the following:

(a) Copies of all current Licenses of Buyer and each pertinent Buyer Affiliate relevant to operation of the Facilities and all third party and Governmental Body consents, permits and authorizations that Buyer and each pertinent Buyer Affiliate has received in connection with this Agreement and any other agreements contemplated hereby; and

(b) All other documents, instruments and writings required to be delivered to Sellers at or prior to Closing pursuant to this Agreement and such other certificates of authority and documents as Sellers reasonably request.

ARTICLE X CLOSING

Section 10.1 LLC Transaction. If, as of the first day that the Closing may occur pursuant to Section 10.2, the Washington Ruling has been issued, immediately prior to the Closing Sellers shall, and shall cause the LLC to, take all actions necessary to consummate, and shall consummate, the transactions described in the Washington Ruling in order to allow Buyer to obtain the Washington State sales tax benefits contemplated thereby (collectively, the "LLC Transaction"). Without limiting the generality of the foregoing, the parties agree that immediately prior to the Closing, all of the Assets will be contributed by Sellers to the LLC in exchange for all the membership interests in the LLC. If at such time the Washington Ruling has not issued, the parties shall promptly negotiate in good faith amendments to this Agreement that will provide for the conveyance of the Assets by Sellers directly to Buyer with such amended Agreement being substantially in the form of this Agreement. The parties will endeavor to execute such amended Agreement prior to the last date the Closing may occur pursuant to Section 10.2. In no event, however, shall the failure of the Washington Ruling to timely issue or the failure of the parties to amend this Agreement be a condition to Closing hereunder.

Section 10.2 Closing. Subject to the terms and conditions hereof, the consummation of the transactions contemplated hereby (the "Closing") shall occur at the offices of Stoel Rives LLC in Seattle, Washington, or a mutually agreeable place or places within five (5) Business Days after all of the conditions set forth in Article 8 and Article 9 hereof have been satisfied or waived or at such other time as the parties may agree, but in no event later than the Termination Date set forth in Section 11.1(d). The date on which the Closing actually occurs is referred to herein as the "Closing Date." The Closing shall be effective for all purposes at 11:59 p.m., Pacific Time, on the Closing Date. At the Closing and subject to the terms and conditions of this Agreement, the following will occur:

(a) Deliveries by Sellers. Sellers shall deliver to the LLC such instruments of transfer and conveyance properly executed and acknowledged by Sellers in customary form mutually agreed to by Sellers and Buyer necessary to transfer to and vest in the LLC all of

Sellers' rights, title and interest in and to the Assets or which may be required by the Title Insurer, including, without limitation:

- (i) Bills of sale and assignment in respect of the Assets;
 - (ii) Special Warranty Deeds in the form attached as Exhibit C, properly executed and acknowledged by Sellers with respect to each of the Owned Real Property included in the Assets, and related excise tax affidavits executed by both Sellers and Buyer (provided that Seller shall not be required to deliver Statutory Warranty Deeds or Statutory Bargain and Sale Deeds);
 - (iii) Assignment and assumption agreements properly executed and acknowledged by Sellers with respect to each Assigned Contract included in the Assets;
 - (iv) Instruments of transfer, sufficient to transfer personal property interests that are included in the Assets but not otherwise transferred by the bills of sale and assignment referred to in clause (i) above, properly executed and acknowledged in the form customarily used in commercial transactions in Washington; and
 - (v) Possession of the Assets which shall include, without limitation, keys, codes, passcodes and/or combinations to all locks and vehicles.
- (b) Sellers shall deliver to Buyer an assignment of all of the interests in the LLC.
- (c) Sellers shall deliver to Buyer a copy of Form 8832 as filed with the Internal Revenue Service (regarding the classification of the LLC as a disregarded entity), as contemplated in Section 3.17.
- (d) Deliveries by Buyer. Buyer shall, or shall cause Buyer Affiliates to, deliver to Sellers immediately available funds, by way of wire transfer to an account or account designated by Sellers, in an aggregate amount equal to the Facilities Purchase Price and such instruments of assumption properly executed and acknowledged by Buyer and the pertinent Buyer Affiliates in customary form mutually agreed to by Buyer and Sellers necessary for Buyer to assume the liabilities described in Section 2.6, including, without limitation:
- (i) Assignment and assumption agreements properly executed and acknowledged by Buyer and the pertinent Buyer Affiliates with respect to each Assigned Contract included in the Assets; and
 - (ii) An assumption agreement or assumption agreements in favor of Sellers.

Section 10.3 Escrow. If either Buyer or Sellers desire to consummate the Closing through an escrow, an escrow shall be opened with, and the escrow agent shall be, the Title Insurer or an Affiliate thereof (the "Escrow Agent"), by depositing a fully executed copy of this Agreement with the Escrow Agent to serve as escrow instructions. This Agreement shall be considered the primary escrow instructions between the parties, but the parties shall execute such

additional standard escrow instructions as the Escrow Agent shall require in order to clarify the duties and responsibilities of the Escrow Agent. In addition, prior to the Closing the parties shall provide the Escrow Agent with an estimated closing statement setting forth the parties' best estimate of all of the closing costs to be paid by the parties. Within 30 days after the Closing Date, Escrow Agent shall prepare a final closing statement reflecting the actual final closing costs and provide it to Buyers and Sellers for review. Any adjustments required pursuant to the final closing statement shall be paid by the owing party within 45 days after the Closing Date. In the event of any conflict between this Agreement and such additional standard escrow instructions, this Agreement shall prevail. If the Closing is to be consummated through the Escrow Agent, the parties shall deliver the funds, instruments of sale, assignment, conveyance and assumption called for by Section 10.2 to the Escrow Agent, and on the Closing Date, the Escrow Agent shall close the escrow by:

- (a) Causing the deeds for the Owned Real Property and any other documents which the parties may mutually designate to be recorded in the official records of the appropriate counties in which the pertinent Assets are located;
- (b) Delivering to Sellers by wire transfer of immediately available funds, to an account or accounts designated by Sellers, the amounts called for in Section 10.2; and
- (c) Delivering to Buyer or Sellers, as the case may be, the other instruments referred to in Section 10.2.

Section 10.4 Prorations. Items of expense and income (if any) affecting the Assets that are customarily prorated, including, without limitation, real and personal property taxes and assessments, utility charges, charges arising under leases, insurance premiums, and the like, shall be prorated between Sellers and Buyer and the pertinent Buyer Affiliates as of the Closing Date.

ARTICLE XI TERMINATION

Section 11.1 Termination. In addition to any other rights of termination set forth in this Agreement, any transactions contemplated hereby that have not been consummated may be terminated:

- (a) At any time, by mutual written consent of Sellers and Buyer; or
- (b) By either Buyer or Sellers, as the case may be, upon 30 days' written notice given any time after (i) the issuance of an order by a Governmental Body in a manner that fails to meet the conditions of the terminating party set forth in Sections 8.4 or 9.4, as the case may be, or (ii) 270 days have elapsed from the filing after the date hereof of all applications for approval of this Agreement and the transactions contemplated hereby by Governmental Bodies and a final order has not been obtained with respect to each such application, it being understood that such 270-day period shall not include any period after such order during which applications for rehearing or modification or judicial appeals or remedies are pending; or
- (c) By one party upon written notice to the other if there has been a material default or breach under this Agreement by another party which is not cured by the earlier of the

Closing Date or the date 30 days after receipt by the other party of written notice from the terminating party specifying with particularity such breach or default; or

(d) By either Buyer or Sellers upon written notice to the other party, if (i) the Closing shall not have occurred by the Termination Date; or (ii) (A) in the case of termination by Sellers, the conditions set forth in Article 9 for the Closing cannot reasonably be met by the Termination Date and (B) in the case of termination by Buyer, the conditions set forth in Article 8 for the Closing cannot reasonably be met by the Termination Date, unless in either of the cases described in clauses (A) or (B), the failure of the condition is the result of the material breach of this Agreement by the party seeking to terminate. The Termination Date for the Closing shall be the date that is twelve (12) months from the date hereof. Such date, or such later date as may be specifically provided for in this Agreement (including any date arising under operation of Sections 8.6 and 8.7(a) hereof) or agreed upon by the parties, is herein referred to as the "Termination Date." Each party's right of termination hereunder is in addition to any other rights it may have hereunder or otherwise; or

(e) By Buyer, upon written notice to Sellers not later than ten (10) Business Days prior to the Closing Date, if Buyer has reasonably determined that the Safety Program will result in required seismic or other safety modifications to the Facilities that exceed \$14,000,000. Such written notice will include a reasonably detailed explanation as to why Buyer believes costs of seismic or other safety modifications will exceed \$14,000,000, together with supporting evidence (including copies of consultants reports) for that conclusion. The parties shall, within 30 days after the date of such notice, meet in good faith to discuss Buyer's notice. If Buyer has properly given notice, does not waive the objection and the parties do not, for any reason, enter into a written modification within the 30 day period, Buyer may elect to terminate this Agreement upon written notice to Sellers within five (5) days after the end of such period. If Buyer terminates pursuant to this provision, Sellers shall have no further obligation to Buyer for maintenance or operation of the Facilities.

Section 11.2 Effect of Termination. If there has been a termination pursuant to Section 11.1 or pursuant to any other provisions of this Agreement, then this Agreement shall be deemed terminated, and all further obligations of the parties hereunder shall terminate, except that the obligations set forth in Section 5.3 and in Articles 12 and 13.9 shall survive. In the event of such termination of this Agreement, there shall be no liability for damages on the part of a party to another under and by reason of this Agreement or the transactions contemplated hereby except as set forth in Article 12 and except for intentionally fraudulent acts by a party, the remedies for which shall not be limited by the provisions of this Agreement. The foregoing provisions shall not, however, limit or restrict the availability of specific performance or other injunctive or equitable relief to the extent that specific performance or such other relief would otherwise be available to a party hereunder.

Section 11.3 Modification of Terms. In the event any Governmental Body entertains, as an alternative to approval of this Agreement and any other agreement contemplated hereby, any proposal of one or more third parties to acquire the Facilities from Sellers on terms and conditions that include a higher purchase price than the Facilities Purchase Price set forth herein, and such terms and conditions are acceptable to Sellers, then and in that event, subject to such restrictions and requirements as such Governmental Body may impose upon Sellers, Sellers shall

exercise their best efforts to afford to Buyer the right to enter into appropriate amendments and modifications of this Agreement to match such proposed alternate terms and conditions. Buyer shall be entitled to exercise such right by delivery of written notice thereof to Sellers within three (3) Business Days after its receipt of written notice from Sellers that, in Sellers' good faith belief, the proposals of such third party or parties makes it unlikely that such Governmental Body will approve this Agreement and the transactions contemplated hereby in a timely fashion and that the alternate terms and conditions are acceptable to Sellers. If such right is not exercised and such Governmental Body proceeds to decline to grant its approval, the termination provisions of Section 11.1 shall apply.

ARTICLE XII SURVIVAL AND REMEDIES; INDEMNIFICATION

Section 12.1 Survival. Except as may be otherwise expressly set forth in this Agreement, the representations, warranties, covenants and agreements of Buyer and Sellers set forth in this Agreement, or in any writing required to be delivered in connection with this Agreement, shall survive the Closing Date.

Section 12.2 Exclusive Remedy. Absent intentional fraud or unless otherwise specifically provided herein, the sole exclusive remedy for damages of a party hereto for any breach of the representations, warranties, covenants and agreements of the other party contained in this Agreement shall be the remedies contained in this Article 12.

Section 12.3 Indemnity by Sellers.

(a) Sellers shall indemnify and hold harmless the LLC (from and after the Closing), Buyer, each Buyer Affiliate, and each Affiliate of Buyer or any Buyer Affiliate from and against any and all claims, demands, suits, losses, liabilities, damages and expenses, including reasonable attorneys' fees and costs of investigation, litigation, settlement and judgment, and including any costs and expenses incurred by any such Indemnitee as a result or arising out of any obligation or election (whether arising out of or in connection with any Law, any contract, any Charter Document, or otherwise) of any such Indemnitee to indemnify its directors, officers, attorneys, employees, subcontractors, agents and assigns (collectively "Losses"), which they or any of them may sustain or suffer or to which they or any of them may become subject as a result of:

(i) The inaccuracy of any representation or the breach of any warranty made by Sellers in this Agreement; and

(ii) The nonperformance or breach of any covenant or agreement made or undertaken by Sellers in this Agreement.

(b) The indemnification obligations of Sellers provided above shall, in addition to the qualifications and conditions set forth in Sections 12.5 and 12.6, be subject to the following qualifications with respect to claims of indemnity for Losses:

(i) Written notice to Sellers of such claim specifying the basis thereof must be made, or an action at law or in equity with respect to such claim must be served,

before the second (2nd) anniversary of the earlier to occur of the Closing Date or the date on which this Agreement is terminated, as the case may be;

(ii) If the Closing occurs, the LLC, Buyer, Buyer Affiliates and their respective Affiliates shall be entitled only to recover the amount by which the aggregate Losses sustained or suffered by them exceed \$500,000 (the "Deductible Amount"), *provided, however*, that individual claims of \$5,000 or less shall not be aggregated for purposes of calculating either the Deductible Amount or the excess of Losses over the Deductible Amount and Buyer shall be entitled to recover on a dollar for dollar basis all claims for Losses covered under insurance maintained by Sellers; and

(iii) If the Closing occurs, in no event shall Sellers and their Affiliates be liable to the LLC, Buyer, Buyer Affiliates and their respective Affiliates for Losses in the nature of consequential damages, incidental damages, indirect damages, punitive damages, special damages, lost profits, damage to reputation or the like, but such damages shall be limited to out-of-pocket Losses and diminution in value; *provided, however*, that damages for all Losses shall be limited to an aggregate limit under this Agreement equal to the Facilities Purchase Price.

(c) The liability of Sellers under this Agreement shall be several and not joint or collective and no individual Seller shall be jointly or severally liable for the acts, omissions or obligations of any other Seller.

Section 12.4 Indemnity by Buyer.

(a) Buyer shall indemnify and hold harmless Sellers and each of them, and each Affiliate of Sellers or any of them, from and against any and all Losses which they or any of them may sustain or suffer or to which they may become subject as a result of:

(i) The inaccuracy of any representation or the breach of any warranty made by Buyer in this Agreement;

(ii) The nonperformance or breach of any covenant or agreement made or undertaken by Buyer in this Agreement; and

(iii) If the Closing occurs, the failure of the LLC or Buyer to pay, discharge or perform as and when due.

(b) The indemnification obligations of Buyer provided above shall, in addition to the qualifications and conditions set forth in Sections 12.5 and 12.6, be subject to the following qualifications:

(i) Sellers and their Affiliates shall not be entitled to indemnity for Losses unless written notice to Buyer of such claim specifying the basis thereof is made, or an action at law or in equity with respect to such claim is served, before the second (2nd) anniversary of the earlier to occur of the Closing Date or the date on which this Agreement is terminated, as the case may be;

(ii) If the Closing occurs, Sellers and their Affiliates shall be entitled only to recover the amount by which the aggregate Losses suffered or sustained by them exceed the Deductible Amount, *provided, however*, that individual claims of \$5,000 or less shall not be aggregated for purposes of calculating either the Deductible Amount or the excess of Losses over the Deductible Amount; and

(iii) If the Closing occurs, in no event shall the LLC, Buyer and its Affiliates be liable to Sellers or their respective Affiliates for Losses in the nature of consequential damages, incidental damages, indirect damages, punitive damages, special damages, lost profits, damage to reputation or the like, but such damages shall be limited to out-of-pocket Losses and diminution in value; *provided, however*, that all Losses shall be limited to an aggregate limit under this Agreement equal to the Facilities Purchase Price.

Section 12.5 Further Qualifications Respecting Indemnification. The right of a party (an "Indemnitee") to indemnify hereunder shall be subject to the following additional qualifications:

(a) The Indemnitee shall promptly upon its discovery of facts or circumstances giving rise to a claim for indemnification, including receipt by it of notice of any demand, assertion, claim, action or proceeding, judicial, governmental or otherwise, by any third party (such third party actions being collectively referred to herein as "Third Party Claims"), give notice thereof to the indemnifying party (the "Indemnitor"), such notice in any event to be given within 60 days from the date the Indemnitee obtains actual knowledge of the basis or alleged basis for the right of indemnity or such shorter period as may be necessary to avoid material prejudice to the Indemnitor *provided, however*, the failure to provide or timely provide the Indemnitor with notice of any Third Party Claim shall only affect the Indemnitee's rights to indemnification to the extent that the Indemnitor is materially prejudiced as a result of the Indemnitee's failure to give timely notice of such Third Party Claim; and

(b) In computing Losses, such amounts shall be computed net of any related recoveries to which the Indemnitee is entitled under insurance policies, or other related payments received or receivable from third parties, and net of any tax benefits actually received by the Indemnitee or for which it is eligible, taking into account the income tax treatment of the receipt of indemnification.

Section 12.6 Procedures Respecting Third Party Claims. In providing notice to the Indemnitor of any Third Party Claim (the "Claim Notice"), the Indemnitee shall provide the Indemnitor with a copy of such Third Party Claim or other documents received and shall otherwise make available to the Indemnitor all relevant information material to the defense of such claim and within the Indemnitee's possession. The Indemnitor shall have the right, by notice given to the Indemnitee within 15 days after the date of the Claim Notice, to assume and control the defense of the Third Party Claim that is the subject of such Claim Notice, including the employment of counsel selected by the Indemnitor after consultation with the Indemnitee, and the Indemnitor shall pay all expenses of, and the Indemnitee shall cooperate fully with the Indemnitor in connection with, the conduct of such defense. The Indemnitee shall have the right to employ separate counsel in any such proceeding and to participate in (but not control) the

defense of such Third Party Claim, but the fees and expenses of such counsel shall be borne by the Indemnitee unless the Indemnitor shall agree otherwise; *provided, however*, if the named parties to any such proceeding (including any impleaded parties) include both the Indemnitee and the Indemnitor, the Indemnitor requires that the same counsel represent both the Indemnitee and the Indemnitor, and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them, then the Indemnitee shall have the right to retain its own counsel at the cost and expense of the Indemnitor. If the Indemnitor shall have failed to assume the defense of any Third Party Claim in accordance with the provisions of this Section, then the Indemnitee shall have the absolute right to control the defense of such Third Party Claim, and, if and when it is finally determined that the Indemnitee is entitled to indemnification from the Indemnitor hereunder, the fees and expenses of Indemnitee's counsel shall be borne by the Indemnitor, provided that the Indemnitor shall be entitled, at its expense, to participate in (but not control) such defense. The Indemnitor shall have the right to settle or compromise any such Third Party Claim for which it is providing indemnity so long as such settlement does not impose any obligations on the Indemnitee (except with respect to providing releases of the third party). The Indemnitor shall not be liable for any settlement effected by the Indemnitee without the Indemnitor's consent except where the Indemnitee has assumed the defense because Indemnitor has failed or refused to do so. The Indemnitor may assume and control, or bear the costs, of any such defense subject to its reservation of a right to contest the Indemnitee's right to indemnification hereunder, provided that it gives the Indemnitee notice of such reservation within 15 days of the date of the Claim Notice.

ARTICLE XIII GENERAL PROVISIONS

Section 13.1 Notices. All notices, requests, demands, waivers, consents and other communications hereunder shall be in writing, shall be delivered either in person, by telegraphic, facsimile or other electronic means, by overnight air courier or by mail, and shall be deemed to have been duly given and to have become effective (a) upon receipt if delivered in person or by telegraphic, facsimile or other electronic means, (b) one (1) Business Day after having been delivered to an air courier for overnight delivery or (c) three (3) Business Days after having been deposited in the U.S. mail as certified or registered mail, return receipt requested, all fees prepaid, directed to the parties or their permitted assignees at the following addresses (or at such other address as shall be given in writing by a party hereto):

If to Sellers, addressed to:

Jeffery B. Erb
Assistant General Counsel
PacifiCorp
825 NE Multnomah
Portland, OR 97232
Facsimile: (503) 813-7252

with a copy to:

William H. Holmes
Stoel Rives LLP
900 SW Fifth Avenue
Portland, OR 97204
Facsimile: (503) 220-2480

If to Buyer or any Buyer Affiliate, addressed to:

2677588 Washington LLC
913 Big Hanaford Road
Centralia, WA 98531
Attn: Charles Bates, Secretary
Facsimile: (360) 807-8051

with a copy to:

TransAlta Corporation
Box 1900, Station "M"
110 - 12th Avenue SW
Calgary, AB Canada T2P 2M1
Attn: Executive Vice President, Legal
Facsimile: (403) 267-7255

and:

Joel H. Mack
Latham & Watkins LLP
701 B Street
Suite 2100
San Diego, CA 92101
Facsimile: (619) 696-7419

Section 13.2 Attorneys' Fees. Subject to the provisions of Section 13.9, in any litigation or other proceeding relating to this Agreement, the prevailing party shall be entitled to recover its costs and reasonable attorneys' fees.

Section 13.3 Successors and Assigns. Except as provided in Section 2.5, the rights under this Agreement shall not be assignable or transferable nor the duties delegable by any

party without the prior written consent of the other; and nothing contained in this Agreement, express or implied, is intended to confer upon any Person, other than the parties hereto, their permitted successors-in-interest and permitted assignees and any Person who or which is an intended beneficiary of the indemnities provided herein, any rights or remedies under or by reason of this Agreement unless so stated to the contrary. Notwithstanding the foregoing, Buyer may grant to its lenders a security interest in its rights under this Agreement; provided that neither the grant of any such interest, nor the foreclosure of any such interest, shall in any way release, reduce or diminish the obligations of Buyer to Sellers hereunder, and Sellers shall enter into a consent to assignment with such lenders reasonably acceptable to Sellers.

Section 13.4 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 13.5 Captions and Paragraph Headings. Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

Section 13.6 Entirety of Agreement: Amendments. This Agreement (including the Schedules and Exhibits hereto), and the other documents and instruments specifically provided for in this Agreement, including but not limited to the Confidentiality Agreement, contain the entire understanding between the parties concerning the subject matter of this Agreement and such other documents and instruments and, except as expressly provided for herein, supersede all prior understandings and agreements, whether oral or written, between them with respect to the subject matter hereof and thereof. There are no representations, warranties, agreements, arrangements or understandings, oral or written, between the parties hereto relating to the subject matter of this Agreement and such other documents and instruments which are not fully expressed herein or therein. This Agreement may be amended or modified only by an agreement in writing signed by each of the parties hereto. All Exhibits and Schedules attached to or delivered in connection with this Agreement are integral parts of this Agreement as if fully set forth herein.

Section 13.7 Construction. This Agreement and any documents or instruments delivered pursuant hereto shall be construed without regard to the identity of the Person who drafted the various provisions of the same. Each and every provision of this Agreement and such other documents and instruments shall be construed as though the parties participated equally in the drafting of the same. Consequently, the parties acknowledge and agree that any rule of construction that a document is to be construed against the drafting party shall not be applicable either to this Agreement or such other documents and instruments. Whenever in this Agreement the context so suggests, references to the masculine shall be deemed to include the feminine, references to the singular shall be deemed to include the plural, and references to "or" shall be deemed to be disjunctive but not necessarily exclusive.

Section 13.8 Waiver. The failure of a party to insist, in any one or more instances, on performance of any of the terms, covenants and conditions of this Agreement shall not be construed as a waiver or relinquishment of any rights granted hereunder or of the future performance of any such term, covenant or condition, but the obligations of the parties with

respect thereto shall continue in full force and effect. No waiver of any provision or condition of this Agreement by a party shall be valid unless in writing signed by such party or operational by the terms of this Agreement. A waiver by any party of the performance of any covenant, condition, representation or warranty of any other party shall not invalidate this Agreement, nor shall such waiver be construed as a waiver of any other covenant, condition, representation or warranty. A waiver by any party of the time for performing any act shall not constitute a waiver of the time for performing any other act or the time for performing an identical act required to be performed at a later time.

Section 13.9 Arbitration.

(a) Agreement to Arbitrate. Any controversy or claim arising out of or relating to this Agreement, or the breach or alleged breach hereof, shall, upon demand of either Sellers or Buyer, be submitted to arbitration in the manner hereinafter provided. Sellers and Buyer will make every reasonable effort to resolve any such controversy or claim without resort to arbitration. But in the event the parties are unable to effect a satisfactory resolution between themselves, such controversy shall be submitted to arbitration in accordance with the terms and provisions of this Section 13.9 and in accordance with the then current Commercial Arbitration Rules (hereinafter the "Rules") of the American Arbitration Association (or any successor organization) (hereinafter the "AAA"). Any such arbitration shall take place in Seattle, Washington and shall be administered by the AAA. Sellers shall, for purposes of this Agreement, be deemed a single party in any such proceeding. In the event of any conflict between the terms and provisions of this Section and the Rules, the terms and provisions of this Section shall prevail.

(b) Submission to Arbitration. A party desiring to submit to arbitration any such controversy shall send a written arbitration demand to the AAA and to the opposing party. The demand shall set forth a clear and complete statement of the nature of the claim, its basis, and the remedy sought, including the amount of damages, if any. The opposing party may, within 30 days of receiving the arbitration demand, assert a counterclaim or set-off. The counterclaim or set-off, which shall be sent to the AAA and the opposing party, shall include a clear and complete statement of the nature of the counterclaim or set-off, its basis, and the remedy sought, including the amount of damages, if any.

(c) Selection of Arbitration Panel. The dispute shall be decided by a panel of three neutral arbitrators selected as follows. The AAA shall submit to the parties, within ten (10) days after receipt of an arbitration demand, a list of eleven potential arbitrators consisting of retired federal or state court judges; provided that none of the potential arbitrators shall have (or have ever had) any material affiliation of any kind with any party or with legal counsel for any party. Each party shall, within five days, strike four, three, two, one or none of the arbitrators, rank the remaining arbitrators in order of preference (with "1" designating the most preferred, "2" the next most preferred and so forth) and so advise the AAA in writing. The AAA shall appoint the arbitrators with the best combined preference ranking on both lists and designate the most preferred arbitrator as presiding officer (in each case, selecting by lot, if necessary, in the event of a tie).

(d) Prehearing Discovery. There shall be no prehearing discovery except as follows. Subject to the authority of the presiding officer of the arbitration panel to modify the provisions of this paragraph before the arbitration hearing upon a showing of exceptional circumstances, each party (i) shall propound to the other no more than 20 requests for production of documents, including subparts, and (ii) shall take no more than two (2) discovery depositions. Such discovery shall be conducted in accordance with the provisions and procedures of the Federal Rules of Civil Procedure. No interrogatories or requests for admission shall be permitted. Disputes concerning discovery obligations or protection of discovery materials shall be determined by the presiding officer of the arbitration panel. The foregoing limitations shall not be deemed to limit a party's right to subpoena witnesses or the production of documents at the arbitration hearing, nor to limit a party's right to depose witnesses that are not subject to subpoena to testify in person at the arbitration hearing; *provided, however*, that the presiding officer of the arbitration panel may, upon motion, place reasonable limits upon the number and length of such testimonial depositions.

(e) Arbitration Hearing. The presiding officer of the arbitration panel shall designate the place and time of the hearing. The hearing shall be scheduled to begin within ninety (90) days after the filing of the arbitration demand (unless extended by the arbitration panel on a showing of exceptional circumstances) and shall be conducted as expeditiously as possible. In all events, the issues being arbitrated, which shall be limited to those issues identified in the initial claim and counter-claim submitted to the arbitration panel pursuant to Subsection (b) above, shall be submitted for decision within 30 days after the beginning of the arbitration hearing. At least 30 days prior to the beginning of the arbitration hearing, each party shall provide the other party and the arbitration panel with written notice of the identity of each witness (other than rebuttal witnesses) it intends to call to testify at the hearing, together with a detailed written outline of the substance of the anticipated testimony of each such witness. The arbitration panel shall not permit any witness to testify that was not so identified prior to the hearing and shall limit the testimony of each such witness to the matters disclosed in such outline. Subject to the foregoing, the parties shall have the right to attend the hearing, to be represented by counsel, to present documentary evidence and witnesses, to cross-examine opposing witnesses and to subpoena witnesses. The Federal Rules of Evidence shall apply and the panel shall determine the competency, relevance, and materiality of evidence as appropriate. The panel shall recognize privileges available under applicable Law. A stenographic record shall be made of the arbitration proceedings.

(f) Award. The panel's award shall be made by majority vote of the panel. An award in writing signed by at least two of the panel's arbitrators shall set forth the panel's findings of fact and conclusions of Law. The award shall be filed with the AAA and mailed to the parties no later than 30 days after the last day of testimony at the arbitration hearing. The panel shall have authority to issue any lawful relief that is just and equitable, except consequential damages, incidental damages, indirect damages, punitive damages, special damages, lost profits, diminution in value, damage to reputation or the like. The award shall state that it dissolves and supersedes any provisional remedies entered pursuant to Subsection (g) below.

(g) Provisional Remedies. Pending the selection of the arbitration panel, upon request of a party, the AAA may appoint a retired judge to serve as a provisional arbitrator to

rule on any motion for preliminary relief. Any preliminary relief ordered by the provisional arbitrator may be immediately entered in any federal or state court having jurisdiction thereof even though the decision on the underlying dispute may still be pending. Once constituted, the arbitration panel may, upon request of a party, issue a superseding order to modify or reverse such preliminary relief or may itself order preliminary relief pending a full hearing on the merits of the underlying dispute. Any such initial or superseding order of preliminary relief may be immediately entered in any federal or state court having jurisdiction thereof even though the decision on the underlying dispute may still be pending. Such relief may be granted by the appointed arbitrator or the arbitration panel only after notice to and opportunity to be heard by the opposing party. Such awards of preliminary relief shall be in writing and, if ordered by a panel of three arbitrators, must be signed by at least two of the panel members.

(h) Entry of Award by Court. The arbitration panel's arbitration award shall be final. The parties agree and consent that judgment upon the arbitration award may be entered in any federal or state court having jurisdiction thereof.

(i) Costs and Attorneys' Fees. The prevailing party shall be entitled to recover its costs and reasonable attorneys' fees, and the party losing the arbitration shall pay all expenses and fees of the AAA, all costs of the stenographic record, all expenses of witnesses or proofs that may have been produced at the direction of the arbitrators, and the fees, costs, and expenses of the arbitrators. The arbitration panel shall designate the prevailing party for these purposes.

Section 13.10 Governing Law. This Agreement shall be governed in all respects, including validity, interpretation and effect, by the Laws of the State of Washington applicable to contracts made and to be performed wholly within the State of Washington, provided that federal Law, including the Federal Arbitration Act, shall govern all issues concerning the validity, enforceability and interpretation of the arbitration provision set forth in Section 13.9 hereof. Any judicial action or proceeding arising under this Agreement shall be adjudicated in Seattle, Washington.

Section 13.11 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be valid, binding and enforceable under applicable Law, but if any provision of this Agreement is held to be invalid, void (or voidable) or unenforceable under applicable Law, such provision shall be ineffective only to the extent held to be invalid, void (or voidable) or unenforceable, without affecting the remainder of such provision or the remaining provisions of this Agreement.

Section 13.12 Consents Not Unreasonably Withheld. Wherever the consent or approval of any party is required under this Agreement, such consent or approval shall not be unreasonably withheld or delayed, unless such consent or approval is to be given by such party at the sole or absolute discretion of such party or is otherwise similarly qualified.

Section 13.13 Time Is of the Essence. Time is hereby expressly made of the essence with respect to each and every term and provision of this Agreement. The parties acknowledge that each will be relying upon the timely performance by the others of their obligations hereunder as a material inducement to each party's execution of this Agreement.

Section 13.14 Liability. The liability of Sellers under this Agreement shall be several and not joint or collective and no individual Seller shall be jointly or severally liable for the acts, omissions or obligations of any other Seller.

Section 13.15 Execution. This Agreement may be executed in counterpart and executed signature pages delivered by facsimile.

ARTICLE XIV AGENCY

Section 14.1 Agency. Each Seller hereby appoints PacifiCorp as its sole agent for purposes of this Agreement. If, however, this Agreement is amended or modified in any way, such agency shall no longer be valid and all such amendments or modifications must be approved in writing by each Seller individually. Buyer may rely on such agency, and shall have no obligation to provide any notices or undertake any other action with respect to any other Seller except upon amendment or modification of this Agreement.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLERS:

PACIFICORP

By: J.A. Johansen
Name: **Judith A. Johansen**
Title: **President & Chief Executive Officer**

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name:
Title:

PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

CITY OF TACOMA, WASHINGTON

By: _____
Name:
Title:

AVISTA CORPORATION

By: _____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name:
Title:

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLERS:

PACIFICORP

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: *Edward Hansen*
Name: Edward Hansen
Title: General Manager

PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

CITY OF TACOMA, WASHINGTON

By: _____
Name:
Title:

AVISTA CORPORATION

By: _____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name:
Title:

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLERS:

PACIFICORP

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name:
Title:

PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

CITY OF TACOMA, WASHINGTON

By: Mark Crisson
Name: Mark Crisson
Title: Director of Utilities

AVISTA CORPORATION

By: _____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name:
Title:

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

Approved As To Form & Legality:

B. S. Karavits
City Attorney

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLERS:

PACIFICORP

By: _____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name:
Title:

PUGET SOUND ENERGY, INC.

By: Eric M. Markell
Name: ERIC M. MARKELL
Title: SR Vice President

CITY OF TACOMA, WASHINGTON

By: _____
Name:
Title:

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

AVISTA CORPORATION

By: _____
Name:
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLERS:

PACIFICORP

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name:
Title:

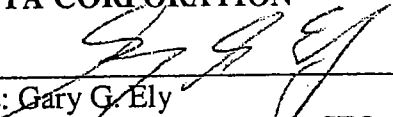
PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

CITY OF TACOMA, WASHINGTON

By: _____
Name:
Title:

AVISTA CORPORATION

By:  _____
Name: Gary G. Ely
Title: Chairman, President & CEO

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name:
Title:

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: [Signature]
Name: Charles Baker
Title: Secretary

By: _____
Name: _____
Title: _____

SELLERS:

PACIFICORP

By: _____
Name: _____
Title: _____

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name: _____
Title: _____

PUGET SOUND ENERGY, INC.

By: _____
Name: _____
Title: _____

CITY OF TACOMA, WASHINGTON

By: _____
Name: _____
Title: _____

AVISTA CORPORATION

By: _____
Name: _____
Title: _____

CITY OF SEATTLE, WASHINGTON

By: _____
Name: _____
Title: _____

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name: _____
Title: _____

TRANSALTA CENTRALIA GENERATION LLC

By: [Signature]
Name: Charles Baker
Title: Secretary

By: _____
Name: _____
Title: _____

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: Alison T. Love
Name: Alison T. Love
Title:

SELLERS:

PACIFICORP

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name:
Title:

PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

CITY OF TACOMA, WASHINGTON

By: _____
Name:
Title:

AVISTA CORPORATION

By: _____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: _____
Name:
Title:

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

By: Alison T. Love
Name: Alison T. Love
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

BUYER:

2677588 WASHINGTON LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

SELLERS:

PACIFICORP

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF SNOHOMISH COUNTY, WASHINGTON

By: _____
Name:
Title:

PUGET SOUND ENERGY, INC.

By: _____
Name:
Title:

CITY OF TACOMA, WASHINGTON

By: _____
Name:
Title:

AVISTA CORPORATION

By: _____
Name:
Title:

CITY OF SEATTLE, WASHINGTON

By: _____
Name:
Title:

PUBLIC UTILITY DISTRICT NO. 1 OF GRAYS HARBOR COUNTY, WASHINGTON

By: Richard D. Lovely
Name: Richard D. Lovely
Title: General Manager

TRANSALTA CENTRALIA GENERATION LLC

By: _____
Name:
Title:

TransAlta Centralia Generation LLC executes this Agreement for purposes of the agreements contained in Sections 2.7 and 5.3(a) of this Agreement.