

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (“MOU”), entered into as of the 26th day of April 2000, is by and between the following Parties:

Avista Corporation
The Montana Power Company
Portland General Electric Company
Puget Sound Energy, Inc.
Sierra Pacific Power Company
Nevada Power Company

(herein after referred to individually as “Party” or collectively as “Parties”).

WHEREAS, the Parties are engaged in the transmission of electric power and energy; and

WHEREAS, the Parties own and operate electric transmission systems that are directly or indirectly interconnected with each other Party; and

WHEREAS, the Parties are committed to file on or before October 15, 2000, a proposal for a Regional Transmission Organization (“RTO”) that would be implemented by December 15, 2001, and that would conform to the minimum characteristic and functions that a transmission entity must satisfy in accordance with the schedule and requirements of the Federal Energy Regulatory Commission’s (“FERC”) Order No. 2000 issued in Docket Nos. RM99-2-000 and RM99-2-001 (“Order No. 2000”); and

WHEREAS, the Parties desire to create a for-profit Independent Transmission Company (“ITC”) to operate in conjunction with an Independent System Operator (“RTO West”) as part of a binary RTO; and

WHEREAS, the Parties believe that the value of their transmission assets is best preserved and enhanced if those assets are consolidated and managed with like assets through ownership or lease to an ITC; and

WHEREAS, the Parties believe that the ITC will satisfy the independence characteristic of Order No. 2000 that it be independent of any market participant.

WHEREAS, the Parties believe that such a proposal will allow for transmission owners who are not Parties to the MOU, such as public power entities, to participate in the ITC by entering into operating agreements; and

WHEREAS, the Parties believe that such a proposal will facilitate the cooperative development of a geographically large RTO proposal.

NOW THEREFORE, in consideration of the mutual benefits to the Parties to be obtained pursuant to this MOU, the Parties hereby agree as follows:

1. The purpose of this MOU is to provide a general basis upon which the Parties anticipate creation of an ITC which will, in conjunction with RTO West, form the RTO under which all FERC Order No. 2000 minimum characteristics and functions will be performed.
2. The Parties recognize that in order to meet the October 15, 2000 filing deadline and December 15, 2001 implementation deadline, a plan for formation must be developed including a September 1, 2000 deadline by which analysis of issues and their resolution should be accomplished.

3. The Parties understand that the plan for formation referenced in Paragraph 2 must include a commitment by each of the Parties of substantial internal and external resources. The Parties recognize the need to commit the resources required and to agree upon a budget for external resources needed to support the creation of the ITC as well as an equitable allocation of the costs of such external resources.
4. The Parties intend that the ITC should be able to satisfy the independence characteristics of Order No. 2000 including, but not limited to, the absence of financial interest in any market participant and a decision making process independent of control by any market participant or class of participants.
5. The Parties anticipate that, at a minimum, the ITC will perform the following functions:
 - a. Planning and Expansion. The ITC will have primary planning responsibility and final decision making authority with respect to its local area facilities that do not impact bulk transmission. The ITC may propose new bulk power transmission solutions to RTO West.
 - b. Tariff. The ITC will be permitted to seek performance-based rates or to seek any other rate recovery mechanism in setting the rates to be paid to the ITC by RTO West, subject to necessary regulatory approvals. The ITC agreement with RTO West will include effective mechanisms to ensure that the ITC receives its revenue requirement, including any performance based rates or other rate recovery mechanisms contained in the ITC tariff with RTO West.
 - c. Open Architecture. The ITC will reserve the right to petition the FERC at any time to perform functions other than those identified in (a) and (b) above, if it determines that it can efficiently perform such other functions without compromising the goals of an RTO as defined by the FERC. The ITC will also reserve the right to exercise the rights granted to any other transmission owner within RTO West.
6. No Party shall be obligated to enter into, or be bound in any manner by, the agreements developed pursuant to this MOU until such Party duly executes such agreements.
7. The only obligation of the Parties under this MOU is the commitment to negotiate in good faith for the formation of the ITC. But, any Party may, in its sole discretion, withdraw from the MOU by giving written notice of its withdrawal to each other Party, after which its obligation to negotiate hereunder shall cease.
8. This MOU shall not be interpreted or construed to create an association, joint venture or partnership among the Parties or to impose any partnership obligations or liability upon any Party.

IN WITNESS WHEREOF, the Parties have caused this MOU to be executed.

Avista Corporation

By: _____

The Montana Power Company

By: _____

Portland General Electric Company

By: _____

Puget Sound Energy, Inc.

By: _____

Sierra Pacific Power Company

By: _____

Nevada Power Company

By: _____

Fercw/2000/mou