



Department of Energy
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

December 18, 2002

In reply refer to: PT-5

Amendment No. 2
Contract No. 00PB-12157
SETTLEMENT AGREEMENT

Mr. Scott Morris
Senior Vice President
Avista Corporation
1411 East Mission
Spokane, WA 99220-3727

Dear Mr. Morris:

This letter agreement (Amendment No. 2) constitutes an amendment to Contract No. 00PB-12157 (Settlement Agreement) between the Bonneville Power Administration (BPA) and Avista Corporation (Avista). Pursuant to section 16 of Contract No. 00PB-12163 (Block Power Sales Agreement), Avista has provided BPA with written notice to terminate that Agreement. Accordingly, pursuant to section 4(b)(1)(B) of the Settlement Agreement, the amount of Firm Power that would have been provided under the Block Power Sales Agreement will be converted to Monetary Benefits.

The Parties agree:

1. **EFFECTIVE DATE.** This Amendment No. 2, when signed by the Parties, shall become effective at 2400 hours on September 30, 2001.
2. **AMENDMENT OF SETTLEMENT AGREEMENT.** Section 4(c)(2)(A) is deleted and replaced by the following:

“(A) **October 1, 2001, through September 30, 2006**

- (i) **Monetary Benefits Under Section 4(c)(1)(A) of Settlement Agreement**

The Monetary Benefit monthly payment amounts under section 4(c)(1)(A) shall be determined in accordance with the following formula:

$$MP = [(FBPF - CRACRL) \times MB \times HOURS] + DDC$$

Where:

MP = Monthly Payment Amount.

FBPF = Forward Flat-Block Price Forecast established in the same BPA power rate case as that which established the RL Rate during the period beginning October 1, 2001, through September 30, 2006.

CRACRL = The RL Rate, as adjusted for SN CRAC, if any, calculated at 100 percent load factor for each month.

MB = Monetary Benefit amount in annual aMW, as specified in section 4(c)(1)(A).

HOURS = Number of hours in the month.

DDC = A monthly dollar amount due to DDC distribution.

(ii) **Monetary Benefits for Firm Power Converted to Cash Pursuant to section 4(b)(1)(B) of Settlement Agreement**
The Monetary Benefit monthly payment amounts pursuant to section 4(b)(1)(B) shall be determined in accordance with the following formula:

$$MP = [(FBPF - CRACRL) \times MBP \times HOURS] \pm CRACTRUEUP + DDC$$

Where:

MP = Monthly Payment Amount.

FBPF = Forward Flat-Block Price Forecast established in the same BPA power rate case as that which established the RL Rate during the period beginning October 1, 2001, through September 30, 2006.

CRACRL = The RL Rate, as adjusted for LB, FB, and SN CRACs, if any, calculated at 100 percent load factor for each month.

MBP = Amount of Firm Power converted to Monetary Benefit amount in annual aMW, pursuant to section 4(b)(1)(B).

HOURS = Number of hours in the month.

CRACTRUEUP = A monthly dollar amount, which may be positive or negative, resulting from a true-up of LB CRAC.

DDC = A monthly dollar amount due to DDC distribution.

(iii) **Remand of 2002 Wholesale Power Rate Schedules**

If any of BPA's 2002 Wholesale Power Rate Schedules (including GRSPs) are remanded to BPA, and the rate schedules established after such remand are not consistent with the calculation of the Monthly Payment amount in sections 4(c)(2)(A)(i) and/or 4(c)(2)(A)(ii) above, then the Parties shall further amend this Agreement in a timely manner to either establish formulas consistent with such remanded rate schedules following interim approval of such rate schedules by FERC or, in the event the Parties cannot agree on such revised formulas, amend this Agreement to establish the formula in section 4(c)(2)(A) that was in effect prior to execution of this Amendment No. 2. In the event that the revised remanded rate schedules are themselves subsequently remanded to BPA, the Parties shall again, in a timely manner, follow the procedures as prescribed in the first sentence of this section."

If the foregoing terms are acceptable, please sign both originals and return one original of this Agreement to BPA. The remaining original is for your files.

Sincerely,



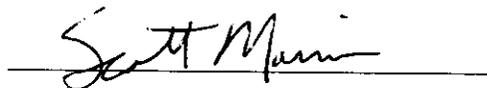
Account Executive

Name Scott K. Wilson
(Print/Type)

ACCEPTED:

AVISTA CORPORATION

By



Name Scott Morris
(Print/Type)

Title Senior Vice President

Date

12-23-02

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