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September 23, 2005

Kristi Wallace
Coordinator, Transmission Improvements Group
716 39th Avenue
Seattle, Washington 98122

Allen Burns
Executive VP, Industry Restructuring
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

RE: TIG Memorandum of Intent

Dear Kristi and Allen:

On behalf of Avista Corporation ("Avista"), please find enclosed an executed copy of the Transmission Improvements Group ("TIG") Developmental Memorandum of Intent ("MOI"). While our execution of the MOI demonstrates Avista's willingness to move forward with the TIG approach, please take note of the following qualifications with respect to our signing this document.

In its comment letter to the Bonneville Power Administration (Bonneville) regarding the Grid West and TIG proposals, Avista made it clear that it is willing to support *either* the Grid West or TIG approaches. Avista's execution of the TIG MOI does not indicate its preference for the proposed TIG structure over that proposed for Grid West. Additionally, notwithstanding the fact that the MOI specifically does not preclude an executing party from coincidentally participating in and funding the Grid West process, Avista has made it clear that it has no intention of participating in, and funding, both the Grid West and TIG processes should they remain in conflict and competition with one another. Avista's intent to execute the TIG funding agreement is based upon a potential decision by Bonneville to move forward *exclusively* on implementation of the TIG proposal.

Furthermore, I wish to assert that any announcement by any party to any regulator, congressional delegation member, regional stakeholder or any media representative that Avista is now a TIG supporter, or that it has "signed on to TIG," or any similar statement or representation making

any implication that, by its execution of the MOI, Avista has indicated a preference for the TIG structure over that proposed for Grid West, is both incorrect and not authorized.

Again, Avista believes that both the Grid West and TIG approaches represent viable, workable structures that can provide value for our Region, subject to there being a "critical mass" of participation. Accordingly, for either approach to be successful, Bonneville must be a committed participant. Avista pledges its support in the continuation of the process during the final stage of development, including the funding of such final development activities, regardless of whether Bonneville chooses Grid West or TIG. Should Bonneville choose to develop the TIG approach exclusively, Avista's execution of the MOI signals our intent to participate fully.

Respectfully,

A handwritten signature in black ink, appearing to read "J Schlect", with a long horizontal flourish extending to the right.

Jeff Schlect
Manager, Transmission Services

Enclosure

Transmission Improvements Group Developmental Memorandum of Intent

This Memorandum of Intent ("MOI"), dated as of _____, 2005, is entered into by and among the signatories to this MOI (each, a "Party" and in the plural, the "Parties"). However, it shall not become effective as to any signatory unless and until such time as it is signed by such signatory and Bonneville Power Administration ("BPA").

WHEREAS, the Transmission Improvements Group ("TIG") has developed a proposal containing high level concepts, specific solutions, and a structural framework for implementing improvements to several aspects of the Northwest transmission system;

WHEREAS, one of the conditions of TIG participation during the development of the TIG proposal has been that no Party endorsed in advance or committed to support the proposals; and

WHEREAS, the Parties to this MOI believe the TIG proposal is an appropriate course for the region and they intend to express their support for implementation of the TIG proposal by funding and actively participating in the development of the TIG Coordinating Agreement and Implementation Agreements.

The Parties agree to the following:

1. Term

This MOI shall be of no force or effect as to any signatory unless and until it is signed by BPA and another signatory. The MOI shall become effective as of the date it is signed by BPA and shall remain in effect for 365 days from such date *provided* that a signatory may withdraw after May 1, 2006 by providing formal notice to all other Parties that it rescinds its intent to participate in the implementation of the TIG proposal and, *provided further*, the MOI shall remain in effect for the non-withdrawing parties notwithstanding such withdrawal.

2. Scope of Intent

- 2.1 By executing this MOI the signatory endorses the development of the TIG Coordinating Agreement and Implementation Agreements. The signatory (~~has signed~~) (intends to sign by October 28, 2005) (~~will recommend to its board or council to sign by October 28, 2005~~) a participation and funding agreement substantially in the form of the attached Phase Two Participation and Funding Agreement: *provided* that nothing in this MOI shall preclude any Party from participating in Grid West or other transmission developmental efforts. IAS
- 2.2 The Participation and Funding Agreement describes the funding, cost allocation, and process for the next twelve months of TIG development and implementation. The funding will cover both the development of the Coordinating and Implementation Agreements and early implementation of some TIG functions.

2.3 In drafting and negotiating the Coordinating and Implementation Agreements the Parties intend to use the TIG proposal as a basis. The Parties recognize that some Parties have not participated in the drafting of the TIG proposal and reasonable accommodations shall be considered in the interest of developing mutually agreeable Coordinating and Implementation Agreements.

3. Participation and Implementation

3.1 The Signatory intends to actively participate in the development of a mutually agreeable TIG Coordinating Agreement, with the intent to complete such agreement no later than March 1, 2006.

3.2 The Signatory intends to actively participate in the development of mutually agreeable TIG Implementation Agreements. This shall include the formation of Implementation Committees and where applicable Advisory Committees. The Parties intend to make every reasonable effort to complete mutually agreeable Implementation Agreements by May 1, 2006. The Parties intend that the Agreements shall include an implementation plan with a timeline for incremental steps and full implementation and detailed cost estimates and allocations, and the Agreements will commit the signatories to completing the functions described, with appropriate provisions for termination.

3.3 Once the Coordinating and Implementation Agreements are drafted, each party shall decide whether or not to sign the Agreements. Signing this MOI does not commit the signatory to sign the Coordinating or Implementation Agreements. Once the Agreements are completed the Parties will make every reasonable effort to complete any process steps that are needed as quickly as is reasonably possible. These steps may include seeking board approval, state regulatory approval, FERC approvals, and, in the case of BPA, holding the necessary public process.

3.4 The Parties recognize that some TIG functions can be implemented more quickly than others and they intend that implementation of some of these functions in whole or in part should proceed while the Agreements are being negotiated and finalized. The Parties intend to achieve full implementation of the TIG functions as soon as possible.

4. Participation in RABA

Parties that sign this MOI are indicating their intent to pursue the TIG proposal, which includes a voluntary control area consolidation under the RABA proposal. Parties that operate control areas shall indicate below whether they intend to participate in the development of the RABA Implementation Agreement and intend to make every reasonable effort to execute a mutually agreeable RABA Implementation Agreement.

Participate in Development: Yes No

Intend to Execute: Yes No Uncertain

5. Counterparts

This MOI may be executed in multiple counterparts, each of which will be deemed to be an original, but all of which together shall constitute one and the same instrument.

6. Miscellaneous

6.1 Interpretation and No Joint Venture. This MOI shall not be interpreted or construed to create an association, affiliation, joint venture, or partnership or to impose any partnership obligation or liability upon any of the Parties. None of the Parties shall have any right, power, or authority under this MOI to enter into any agreement or undertaking for, or act on behalf of, or to act as or be an agent or representative of any of the other Parties. It is expressly understood that this MOI is limited in scope and does not constitute an agreement to consummate any transaction involving transmission facilities or to enter into a definitive agreement with respect thereto.

6.2 No Third Party Beneficiaries. This MOI is made and entered into for the sole protection and legal benefit of the Parties. No other person or entity shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this MOI. No other person or entity shall be a third party beneficiary under this MOI.

6.3 Amendments. No amendment, waiver, modification, or other change to this MOI shall be of any force or effect unless hereafter set forth in writing and signed by an authorized representative of each of the Parties.

AVISTA CORPORATION



Name: Jeff Schlect

Title: Manager, Transmission Services

Date: 23-SEP-2005

Name: _____

Title: _____

Date: _____