BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

In the Matter of the Application of	)	
AVISTA CORPORATION	)	APPLICATION
for an Order authorizing the issuance and sale of	)	UF-
Securities not to exceed $100,000,000	)	

Avista Corporation (hereinafter called "Applicant") hereby requests the Public Utility Commission of Oregon to enter a written order establishing that the proposed offering, issuance and sale by the Applicant of up to $100,000,000 of secured or unsecured, fixed or floating rate bonds, notes and other evidences of indebtedness, including, without limitation, assumption of any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm, corporation, or affiliate of the Applicant, and any refunding, extension, renewal or replacement of any of the foregoing (the "Securities") in accordance with OAR 860-27-0025 and -0030.

1. Required information:

(a) The name and principal business address of the Applicant is Avista Corporation, 1411 East Mission Avenue, Spokane, Washington 99202-2600.

(b) The Applicant was incorporated in Washington Territory (now the State of Washington) on March 15, 1889. The term of incorporation is perpetual. The Applicant is a public utility, which currently owns and operates property in Eastern Washington, Northern Idaho, Western Montana, and Central & Southwestern Oregon.

(c) The name and address of the person authorized on behalf of the Applicant to receive notices and communications with respect to this Application is Ms. Diane C. Thoren, Assistant Treasurer, Avista Corporation, 1411 East Mission Avenue, Spokane, Washington, 99202.

(d) The names and titles of the principal officers of the Applicant, all of whom maintain offices at 1411 East Mission Avenue, Spokane, Washington 99202, are as follows:

Gary G. Ely	Chairman of the Board, President & CEO
Malyn K. Malquist	Senior Vice President, CFO & Treasurer
Marian M. Durkin	Senior Vice President and General Counsel
Scott L. Morris	Senior Vice President
Christy M. Burmeister-Smith	Vice President & Controller
Karen S. Feltes	Vice President & Corporate Secretary
Don F. Kopczynski	Vice President
David J. Meyer	V.P. & Chief Counsel for Regulatory & Governmental Affairs
Kelly O. Norwood	Vice President
Ronald R. Peterson	Vice President
Roger D. Woodworth	Vice President
Susan Y. Miner	Assistant Corporate Secretary
Diane C. Thoren	Assistant Treasurer
Robert R. Hanson	Assistant Controller

(e) Applicant is engaged in the generation, transmission, distribution and sale of electric energy, which it sells at retail to approximately 330,000 residential, commercial, and industrial customers in Eastern Washington and Northern Idaho, and at wholesale to public utilities, municipalities and others. Its electric properties are operated as a unified system and are interconnected with adjacent electric utilities. The electric energy sold by the Applicant is generated in power stations, which it owns in whole or in part or obtained, by purchase or exchange from other utilities and governmental agencies.

Applicant is also engaged in the distribution and sale of natural gas to approximately 285,000 residential, commercial and industrial customers in Eastern Washington, Northern Idaho, and Central & Southwestern Oregon.

(f) The Applicant's capital stock as of June 30, 2005 was as follows (Dollars in thousands):

	Outstanding Shares	Amount
Preferred Stock (10,000,000 shares authorized)		
Subject to Mandatory Redemption		
$6.950 Series K ($100 stated value)	297,500	$29,750
Total Preferred Stock	297,500	$29,750
Common Stock (200,000,000 shares authorized)		
No Par Value	48,532,080	$630,041
Capital Stock Expense		(10,522)
Total Common Stock	48,532,080	$619,519

None of the capital stock is held as reacquired securities, pledged, held by affiliated corporations, or held in any fund, except as noted above.

(g) The Applicant's long-term debt as of June 30, 2005 was as follows:

Description	Authorized ($000s)	Outstanding ($000s)
First Mortgage Bonds		
Secured Medium-Term Notes, Series A	$ 250,000	$ 73,500
Secured Medium-Term Notes, Series B	250,000	51,000
7 ¾% Series Due 1-1-2007	150,000	150,000
6.125% Series Due 9-1-2013	150,000	45,000
5.45% Series Due 12-1-2019	*	90,000
Series C	250,000	88,850
Pollution Control Bonds		
Series due October 1, 2032	66,700	66,700
Series due March 1, 2034	17,000	17,000
6% Series due 2014	4,100	4,100
Unsecured Medium-Term Notes		
Series A	200,000	3,000
Series B	150,000	17,000
Trust Preferred Notes		
Capital I & II	150,000	113,403
Senior Corporate Notes		
9.75% Due 6-1-2008	400,000	280,686
Total Long Term Debt	$ 2,037,800	$ 1,000,239

None of the long-term debt is held as reacquired securities, pledged, held by affiliated corporations, or held in any fund, except as noted above.
*Both the 6.125% and the 5.45% Series where issued under the same $150 million authority.

(h) Full Description of Securities Proposed to be Issued. The Applicant proposes to offer, issue and sell Securities for purposes authorized by law, in forms necessary or convenient to its operations, in a total amount of up to and including $100,000,000 and for terms which will exceed 364 days. While no specific transactions are presently pending or contemplated under the proposed authority, the Applicant will only enter into transactions where the fees, interest rates and expenses charged or incurred by the Applicant in connection with the transactions, and any refunding, extensions, renewals or replacements thereof, are competitive with then-existing market prices for similar transactions.

The issuance of debt securities under the requested authority is anticipated before the end of 2005 and could be in the range of $75-$100 Million with a term of 10-30 years and the interest rate would not exceed 7.0%, all depending on and subject to then-existing market prices for similar transactions.

(i) Detailed Description of the Proposed Transaction. The terms for the Securities will be determined at the time of issuance, and the underwriters, banks or other agents will be selected at that time. The terms of each Securities issuance and the names of the banks, or agents will be supplied at the time of issuance.

(j) Fees to Persons Other than Attorneys & Accountants. Compensation to any underwriter, bank or agent for their services in connection with the handling of the Securities is not expected to exceed 2.0%.

(k) Other required applications of filings. Similar applications have been filed with, the Washington Utilities and Transportation Commission and the Idaho Public Utilities Commission, in whose jurisdictions the Applicant also operates. The appropriate forms or other appropriate filing will be filed with the Securities and Exchange Commission depending on the nature of the issuance of the Securities.

(l) Purposes for which the securities are to be issued. The Applicant may use the funds from the offer, issuance and sale of the Securities for any or all of the following purposes: (1) the Applicant's construction, facility improvement, and maintenance programs, (2) to retire or exchange one or more outstanding stock, bond, or note issuances, (3) to reimburse the treasury for funds previously expended, and (4) for such other purposes, as may be permitted by law. To the extent that the Applicant's treasury is refunded, the original expenditures, or their precedents, were made for purposes described by ORS 757.415(1)(a), (b), or (e). To the extent that the obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e).

(m) Reasons and Benefits. The issuance of the requested authority allows the Applicant the greater flexibility to manage its funds and reduce borrowing costs. As the facts set forth in this application demonstrate, the proposed authority would allow the Applicant to better manage its debt and capital in a more efficient and cost effective manner. Accordingly, Applicant believes the requested authority is consistent with the public interest and necessary or appropriate for or consistent with the proper performance by the Applicant of service as a public utility.

(n) Amounts proposed to be acquired. The Applicant anticipates using the proceeds from the issuance of the Securities to refinance debt maturities and to repay funds borrowed under its corporate credit facility. The Applicant has $50 million of debt maturities in the next 12 months beginning in November 2005 that must be refinanced. In addition, the Applicant will have borrowed approximately $56 million under its corporate credit facility in September 2005 to fund the Applicant's purchase price obligations upon the termination of the lease for the Applicant's generating facility located in Rathdrum, Idaho.

(o) Not Applicable

2. Submitted herewith are the following exhibits as required:

Exhibit A	The Applicant's Articles of Incorporation
Exhibit B	The Applicant's Bylaws
Exhibit C	A copy of the resolution adopted by the Applicant's Board.
Exhibit D	The Applicant's Mortgage
Exhibit E	A balance sheet as of June 30, 2005

Exhibit F	A statement of contingent liabilities as of June 30, 2005
Exhibit G	An income statement for the 6 months ended June 30, 2005
Exhibit H	An analysis of retained earnings for the 12 months ended June 30, 2005
Exhibit I	Drafts of transactional documents will be supplied when available.
Exhibit J	Proposed journal entry.
Exhibit K	Not applicable

WHEREFORE, the Applicant respectfully requests the Public Utility Commission of Oregon to enter a written order authorizing the proposed offering, issuance and sale by the Applicant of up to $100,000,000 of certain secured or unsecured bonds, notes and other evidences of indebtedness, including, without limitation, assumption of any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm, corporation, or affiliate of the Applicant, and any refunding, extension, renewal or replacement of any of the foregoing (the "Securities").

AVISTA CORPORATION

By _____
Diane C. Thoren, Assistant Treasurer

Dated: September 20, 2005

STATE OF WASHINGTON)
County of Spokane)

I, Diane C. Thoren, being duly sworn, depose and say that I am the Assistant Treasurer of Avista Corporation, the Applicant in the foregoing Application; that I have read said Application, including all Exhibits thereto, and know the contents thereof; and that the same are true to the best of my knowledge and belief.

_____
Diane C. Thoren, Assistant Treasurer

SUBSCRIBED AND SWORN to before me this
23rd Day of September, 2005

_____
Notary Public for Washington

My Commission Expires: _____

Exhibit E

AVISTA CORPORATION
Unconsolidated Balance Sheet
At June 30, 2005
Dollars in Thousands

ASSETS:		pro forma
CURRENT ASSETS:		
Cash, Restricted cash, Materials, and other	$ 95,321	$ 95,321
Accounts and notes receivable	83,783	83,783
Total current assets	179,104	83,783
PROPERTY:		
Utility plant in service-net	2,773,153	*2,773,153
Less: accumulated depreciation and amortization	766,935	766,935
Net utility plant	2,006,218	2,006,218
OTHER PROPERTY AND INVESTMENTS:		
Investment in exchange power-net	34,708	34,708
Other-net	267,792	267,792
Total other property and investments	302,500	302,500
DEFERRED CHARGES:		
Regulatory assets	146,240	146,240
Unamortized debt expenses	50,443	50,443
Other	259,894	259,894
Total deferred charges	456,577	456,577
TOTAL	$ 2,944,399	2,944,399
CAPITALIZATION AND LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	72,129	72,129
Current portions and short term borrowings	132,280	132,280
Interest accrued	17,988	17,988
Other	82,603	82,603
Total current liabilities	305,000	305,000
DEFERRED CREDITS:		
Deferred income taxes, Other	483,624	483,624
Other	384,801	384,801
Total deferred credits	868,425	868,425
CAPITALIZATION:		
Common stock and additional paid in capital	$ 619,519	619,519
Other shareholders equity (includes retained earnings)	143,663	143,663
Preferred stock - subject to mandatory redemption	141,403	141,403
Long-term debt	866,389	866,389
Total capitalization	1,770,974	1,770,974
TOTAL	$ 2,944,399	$ 2,944,399

*$100 million in new debt minus $100 million of maturing and short-term borrowings.

Exhibit F

Statement of Contingent Liabilities
As of June, 2005

In the course of its business, the Company becomes involved in various claims, controversies, disputes and other contingent matters, including the items described herein. Some of these claims, controversies, disputes and other contingent matters involve litigation or other contested proceedings. With respect to these proceedings, the Company intends to vigorously protect and defend its interests and pursue its rights. However, no assurance can be given as to the ultimate outcome of any particular matter because litigation and other contested proceedings are inherently subject to numerous uncertainties. In addition to issues specifically identified herein and with respect to matters that affect the regulated utility operations, the Company intends to seek, to the extent appropriate, regulatory approval of recovery of incurred costs through the ratemaking process.

Federal Energy Regulatory Commission Inquiry

On April 19, 2004, the Federal Energy Regulatory Commission (FERC) issued an order approving the contested Agreement in Resolution of Section 206 Proceeding (Agreement in Resolution) reached by Avista Corp. doing business as Avista Utilities, Avista Energy and the FERC's Trial Staff with respect to an investigation into the activities of Avista Utilities and Avista Energy in western energy markets during 2000 and 2001. In the Agreement in Resolution, the FERC Trial Staff stated that its investigation found: (1) no evidence that any executives or employees of Avista Utilities or Avista Energy knowingly engaged in or facilitated any improper trading strategy; (2) no evidence that Avista Utilities or Avista Energy engaged in any efforts to manipulate the western energy markets during 2000 and 2001; and (3) that Avista Utilities and Avista Energy did not withhold relevant information from the FERC's inquiry into the western energy markets for 2000 and 2001. As part of the Agreement in Resolution, Avista Utilities agreed to continue to record conversations of energy traders for two years and to improve its account settlement process. Avista Utilities and Avista Energy agreed to maintain an annual training program on the applicable FERC Code of Conduct for all employees engaged in the trading of electric energy and capacity. The Agreement in Resolution imposes no monetary remedies or penalties against Avista Utilities or Avista Energy. On May 19, 2004, the City of Tacoma and California Parties (the Office of the Attorney General, the California Public Utilities Commission (CPUC), and the California Electricity Oversight Board, filing jointly) filed requests for rehearing with respect to the FERC's April 19, 2004 order. On September 28, 2004, the State of Montana filed a motion to intervene in these proceedings. On April 19, 2005, the FERC denied the rehearing requests of the City of Tacoma and California Parties, and denied the State of Montana's motion to intervene. On April 28, 2005 and June 14, 2005, the California Parties and the City of Tacoma, respectively, filed appeals with the United States Court of Appeals for the Ninth Circuit in response to the FERC's denial of rehearing requests. Based on the FERC's order approving the Agreement in Resolution and the FERC's denial of rehearing requests and motion to intervene, the Company does not expect that this proceeding will have any material adverse effect on its financial condition, results of operations or cash flows.

Class Action Securities Litigation

On September 27, 2002, Ronald R. Wambolt filed a class action lawsuit in the United States District Court for the Eastern District of Washington against Avista Corp., Thomas M. Matthews, the former Chairman of the Board, President and Chief Executive Officer of the Company, Gary G. Ely, the current Chairman of the Board, President and Chief Executive Officer of the Company, and Jon E. Eliassen, the former Senior Vice President and Chief Financial Officer of the Company. In October and November 2002, Gail West, Michael Atlas and Peter Arnone filed similar class action lawsuits in the same court against the same parties. On February 3, 2003, the court issued an order consolidating the complaints under the name "In re Avista Corp. Securities Litigation," and on February 7, 2003 appointed the lead plaintiff and co-lead counsel. On August 19, 2003, the plaintiffs filed their consolidated amended class action complaint in the same court against the same parties. In their complaint, the plaintiffs continue to assert violations of the federal securities laws in connection with alleged misstatements and omissions of material fact pursuant to Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The plaintiffs allege that the Company did not have adequate risk management processes, procedures and controls. The plaintiffs further allege that the Company engaged in unlawful energy trading practices and allegedly manipulated western power markets. The plaintiffs assert that alleged misstatements and omissions regarding these matters were made in the Company's filings with the Securities and Exchange Commission and other information made publicly available by the Company, including press releases. The class action complaint asserts claims on behalf of all persons who purchased, converted, exchanged or otherwise acquired the Company's common stock during the period between

November 23, 1999 and August 13, 2002. The Company filed a motion to dismiss this complaint in October 2003 and the plaintiffs filed an answer to this motion in January 2004. Arguments before the Court on the motion were held on March 19, 2004. On April 15, 2004, the Court called for additional briefing on what effect, if any, the FERC proceedings (see "Federal Energy Regulatory Commission Inquiry" above) have on this case. On July 30, 2004, the Court denied the Company's motion to dismiss this complaint, holding, among other things, that the FERC proceedings may ultimately have some evidentiary value relevant to the disclosure issues raised in this case, but they do not preclude the resolution of those issues by the Court. In November 2004, the Company filed its answer to the complaint denying the plaintiffs' allegations. On June 13, 2005, the Company filed a motion for reconsideration of its earlier motion to dismiss this complaint, based, in part, on a recent United States Supreme Court decision with respect to the pleading requirements surrounding a sufficient showing of loss causation. In July 2005, the plaintiffs responded to the Company's motion for reconsideration and the matter is scheduled for arguments in September 2005 before the United States District Court for the Eastern District of Washington. Because the resolution of this lawsuit remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this lawsuit will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Counterparty Defaults

In 2001, Pacific Gas & Electric (PG&E) and Southern California Edison (SCE) defaulted on payment obligations to the California Power Exchange (CalPX) and the California Independent System Operator (CalISO). As a result, the CalPX and the CalISO failed to pay various energy sellers, including Avista Energy. Both PG&E and the CalPX declared bankruptcy in 2001. In March 2002, SCE paid its defaulted obligations; however the funds SCE paid the CalPX have yet to be released to energy sellers. In April 2004, PG&E paid its defaulted obligations into an escrow fund in accordance with its bankruptcy reorganization. Funds held by the CalPX and in the PG&E escrow fund are not subject to release until the FERC issues an order directing such release in the California Refund Proceeding (see discussion below). As of June 30, 2005, Avista Energy's accounts receivable outstanding related to defaulting parties in California were fully offset by reserves for uncollected amounts and funds collected from defaulting parties. Avista Energy continues to defend itself in the California Refund Proceeding and pursue recovery of the defaulted obligations. Because the resolution of these defaulted obligations by counterparties remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability for potential refunds beyond the defaulted obligations. However, based on information currently known to the Company's management, the Company does not expect that the resolution of these defaulted obligations will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

California Refund Proceeding

In July 2001, the FERC ordered an evidentiary hearing to determine the amount of refunds due to California energy buyers for purchases made in the spot markets operated by the CalISO and the CalPX during the period from October 2, 2000 to June 20, 2001 in the California power market. The refunds were based on the development of a mitigated market clearing price methodology. If the refunds required by the formula would cause a seller to recover less than its actual costs for the refund period, the FERC has held that the seller would be allowed in the future to document these costs and limit its refund liability commensurately. The FERC administrative law judge's findings were certified in December 2002. In March 2003, the FERC reviewed the administrative law judge's rulings, adopting many of his findings. The CalISO continues its efforts to prepare revised settlement statements based on newly recalculated costs and charges for spot market sales to California during the refund period and currently estimates that it will make its compliance filing showing "who owes what to whom" in 2006. In January 2005, Avista Energy made filings responding to the FERC's invitation to comment on the proper approach governing revenue shortfall studies that the FERC has determined may be filed by sellers in these proceedings. Avista Energy is currently awaiting the FERC's action on that issue.

In addition, in June 2003, the FERC issued an order to review bids above $250 per MW made by participants in the short-term energy markets operated by the CalISO and the CalPX from May 1, 2000 to October 2, 2000. Market participants with bids above $250 per MW during the period described above have been required to demonstrate why their bidding behavior and practices did not violate applicable market rules. If violations were found to exist, the FERC would require the refund of any unjust profits and could also enforce other non-monetary penalties, such as the revocation of market-based rate authority. Avista

Energy was subject to this review. In May 2004, the FERC provided notice that Avista Energy was no longer subject to this investigation. In March and April 2005, the California Parties and PG&E, respectively, appealed the FERC's decision before the United States Court of Appeals for the Ninth Circuit. In addition, many of the other orders that the FERC has issued in the California refund proceedings are now on appeal before the Ninth Circuit. Some of those issues have been consolidated as a result of a case management conference conducted in September 2004. In October 2004, the Ninth Circuit ordered that briefing proceed in two rounds. The first round is limited to three issues: (1) which parties are subject to the FERC's refund jurisdiction in light of the exemption for government-owned utilities in section 201(f) of the Federal Power Act (FPA); (2) the temporal scope of refunds under section 206 of the FPA; and (3) which categories of transactions are subject to refunds. Oral argument on those issues took place in April 2005. The second round of issues and their corresponding briefing schedules have not yet been set by the Ninth Circuit Court of Appeals. Because the resolution of the California refund proceeding remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that the California refund proceeding will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Pacific Northwest Refund Proceeding

In July 2001, the FERC initiated a preliminary evidentiary hearing to develop a factual record as to whether prices for spot market sales in the Pacific Northwest between December 25, 2000 to June 20, 2001 were just and reasonable. During the hearing, Avista Utilities and Avista Energy vigorously opposed claims that Pacific Northwest markets were dysfunctional, that rates for spot market sales were unjust and unreasonable and that the imposition of refunds would be appropriate. In September 2001, the FERC's Administrative Law Judge presiding over the evidentiary hearing issued a decision favorable to the Company's position and recommended that the FERC not order refunds and instead dismiss the entire proceeding. In June 2003, the FERC terminated the Pacific Northwest refund proceedings, after finding that the equities do not justify the imposition of refunds. In November 2003, the FERC affirmed its order. Seven petitions for review, including one filed by Puget Sound Energy, Inc. (Puget), are now pending before the United States Court of Appeals for the Ninth Circuit. Opening briefs were filed in January 2005. Puget's brief is directed to the procedural flaws in the underlying docket. Puget argues that because its complaint was withdrawn as a matter of law in July 2001, the FERC erred in relying on it to serve as the basis to initiate the preliminary investigation into whether refunds for individually negotiated bilateral transactions in the Pacific Northwest were appropriate. In February 2005, intervening parties, including Avista Energy and Avista Utilities, filed in support of Puget. Briefing was completed in May 2005. Oral arguments are expected, but have not yet been set, during the fourth quarter of 2005. Because the resolution of the Pacific Northwest refund proceeding remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that the Pacific Northwest refund proceeding will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Reliant Energy, Inc. and Duke Energy Corporation Cross-Complaints

In April 2002, several subsidiaries of Reliant Energy, Inc. (Reliant) and Duke Energy Corporation (Duke) filed cross-complaints against Avista Energy and numerous other participants in the California energy markets. The cross-complaints seek indemnification for any liability that may arise from original complaints filed against Reliant and Duke with respect to charges of unlawful and unfair business practices in the California energy markets under California law. In June 2002, Avista Energy filed motions to dismiss the cross-complaints. In the meantime, the U.S. District Court remanded the case to California State Court, which remand is itself the subject of an appeal to the United States Court of Appeals for the Ninth Circuit. In December 2004, the Ninth Circuit issued its opinion affirming the U.S. District Court's remand of these cases to California State Court, and a rehearing request was denied on March 3, 2005. On March 10, 2005, the Ninth Circuit's mandate, remanding the case to state court, was issued. Although cross-defendant Powerex Corp. filed a motion to recall mandate, asking that the Ninth Circuit recall its mandate until a petition for certiorari seeking review of this case by the United States Supreme Court is filed and ruled upon by the Supreme Court. In April 2005, the Ninth Circuit denied Powerex Corp.'s motion to recall mandate, and the case has been remanded to the California State Court. In June 2005, the cross-defendants, including Avista Energy, filed a demurrer in the California State Court seeking to dismiss the action. Further briefing and hearing on the demurrer is currently stayed pending the outcome of the demurrers filed by Duke and Reliant on the main complaint, which is currently set to be heard in September 2005. At this time, the Company

cannot predict the outcome of the cross-complaints or the original complaints filed against Reliant and Duke or provide an estimate of any potential liability to Avista Energy with respect to the cross-complaints. However, based on information currently known to the Company's management, the Company does not expect that this matter will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

California Attorney General Complaint

In May 2002, the FERC conditionally dismissed a complaint filed in March 2002 by the Attorney General of the State of California (California AG) that alleged violations of the Federal Power Act by the FERC and all sellers (including Avista Corp. and its subsidiaries) of electric power and energy into California. The complaint alleged that the FERC's adoption and implementation of market-based rate authority was flawed and, as a result, individual sellers were liable for sales of energy at rates that were "unjust and unreasonable." In May 2002, the FERC issued an order dismissing the complaint but directing sellers to re-file certain transaction summaries. It was not clear that Avista Corp. and its subsidiaries were subject to this directive but the Company took the conservative approach and re-filed certain transaction summaries in June and July of 2002. In July 2002, the California AG requested a rehearing on the FERC order, which request was denied in September 2002. Subsequently, the California AG filed a Petition for Review of the FERC's decision with the United States Court of Appeals for the Ninth Circuit. In September 2004, the United States Court of Appeals for the Ninth Circuit upheld the FERC's market-based rate authority, but found the requirement that all sales at market-based rates be contained in quarterly reports filed with the FERC to be integral to a market-based rate tariff. The California AG has interpreted the decision as providing authority to the FERC to order refunds in the California refund proceeding for an expanded refund period. The Court's decision leaves to the FERC the determination as to whether refunds are appropriate. In October 2004, Avista Energy joined with others in seeking rehearing of the Court's decision to remand the case back to the FERC for further proceedings. The Ninth Circuit has yet to rule on the request for rehearing. Based on information currently known to the Company's management, the Company does not expect that this matter will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Port of Seattle Complaint

In May 2003, a complaint was originally filed by the Port of Seattle in the United States District Court for the Western District of Washington against numerous companies, including Avista Corp., Avista Energy, Inc. and Avista Power, LLC (collectively the Avista defendants), seeking compensatory and treble damages for alleged violations of the Sherman Act and the Racketeer Influenced and Corrupt Organization Act by transmitting, via wire communications, false information intended to increase the price of power, knowing that others would rely upon such information. The complaint alleged that the defendants and others knowingly devised and attempted to devise a scheme to defraud and to obtain money and property from electricity customers throughout the Western Electricity Coordinating Council (WECC), by means of false and fraudulent pretenses, representations and promises. The alleged purpose of the scheme was to artificially increase the price that the defendants received for their electricity and ancillary services, to receive payments for services they did not provide and to manipulate the price of electricity throughout the WECC. In August 2003, the Avista defendants filed a motion to dismiss this complaint. A transfer order was granted, which moved this case to the United States District Court for the Southern District of California to consolidate it with other pending actions. Arguments with respect to the motions to dismiss filed by the Avista defendants and other defendants were heard on March 26, 2004. On May 12, 2004, the United States District Court for the Southern District of California granted motions to dismiss filed by the Avista defendants, as well as other defendants, with respect to this complaint. The Court dismissed the complaint because it determined that it was without jurisdiction to hear the plaintiff's claims, based on, among other things, the exclusive jurisdiction of the FERC and the filed-rate doctrine. On May 27, 2004, the Port of Seattle filed an appeal with the United States Court of Appeals for the Ninth Circuit. This matter has been briefed and awaits oral argument. Because the resolution of this lawsuit remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this lawsuit will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Wah Chang Complaint

On May 5, 2004, Wah Chang, a division of TDY Industries, Inc. (a subsidiary of Allegheny Technologies, Inc.), filed a complaint in the United States District Court for the District of Oregon against numerous companies, including Avista Corp., Avista Energy and Avista Power. The complaint seeks compensatory and treble damages for alleged violations of the Sherman Act, the Racketeer Influenced and Corrupt Organization Act, as well as violations of Oregon state law. According to the complaint, from September 1997 to September 2002, the plaintiff purchased electricity from PacifiCorp pursuant to a contract that was indexed to the spot wholesale market price of electricity. The plaintiff alleges that the defendants, acting in concert among themselves and/or with Enron Corporation and certain affiliates thereof (collectively, Enron) and others, engaged in a scheme to defraud electricity customers by transmitting false market information in interstate commerce in order to artificially increase the price of electricity provided by them, to receive payment for services not provided by them and to otherwise manipulate the market price of electricity, and by executing wash trades and other forms of market manipulation techniques and sham transactions. The plaintiff also alleges that the defendants, acting in concert among themselves and/or with Enron and others, engaged in numerous practices involving the generation, purchase, sale, exchange, scheduling and/or transmission of electricity with the purpose and effect of causing a shortage (or the appearance of a shortage) in the generation of electricity and congestion (or the appearance of congestion) in the transmission of electricity, with the ultimate purpose and effect of artificially and illegally fixing and raising the price of electricity in California and throughout the Pacific Northwest. As a result of the defendants' alleged conduct, the plaintiff allegedly suffered damages of not less than $30 million through the payment of higher electricity prices. In September 2004, this case was transferred to the United States District Court for the Southern District of California for consolidation with other pending actions. In October 2004, the Avista defendants joined with other defendants in filing a joint motion to dismiss the complaint. In February 2005, the Court dismissed the complaint because it determined that it was without jurisdiction to hear the plaintiff's complaint, based on, among other things, the exclusive jurisdiction of the FERC and the filed-rate doctrine. In March 2005, Wah Chang filed an appeal with the United States Court of Appeals for the Ninth Circuit. On May 17, 2005, Wah Chang moved for an order staying the appeal, or dismissing it without prejudice to reinstatement, arguing that the disposition of its appeal was linked to the outcome of a petition for certiorari to the United States Supreme Court filed by Public Utility District No. 1 of Snohomish County (see discussion below) and the resolution of the Port of Seattle complaint (see discussion above). On May 25, 2005, the defendants filed an objection to the Wah Chang's motion and filed their own cross-motion for Summary Affirmance of the District Court's decision to dismiss. Wah Chang responded to the cross-motion in June 2005 and the motions were denied by the United States Court of Appeals for the Ninth Circuit in July 2005. Because the resolution of this lawsuit remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this lawsuit will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

City of Tacoma Complaint

On June 7, 2004, the City of Tacoma, Department of Public Utilities, Light Division, a Washington municipal corporation (Tacoma Power), filed a complaint in the United States District Court for the Western District of Washington against over fifty companies, including Avista Corp., Avista Energy and Avista Power. According to the complaint, Tacoma Power distributes electricity to customers in Tacoma, and Pierce County, Washington, generates electricity at several facilities in western Washington and purchases power under supply contracts and in the Northwest spot market. Tacoma Power's complaint seeks compensatory and treble damages from alleged violations of the Sherman Act. Tacoma Power alleges that the defendants, acting in concert, engaged in a pattern of activities that had the purpose and effect of creating the impressions that the demand for power was higher, the supply of power was lower, or both, than was in fact the case. This allegedly resulted in an artificial increase of the prices paid for power sold in California and elsewhere in the western United States during the period from May 2000 through the end of 2001. Due to the alleged unlawful conduct of the defendants, Tacoma Power allegedly paid an amount estimated to be $175.0 million in excess of what it would have paid in the absence of such alleged conduct. In September 2004, this case was transferred to the United States District Court for the Southern District of California for consolidation with other pending actions. In February 2005, the Court granted the defendants' motion to dismiss this complaint for similar reasons to those expressed by the Court in the Wah Chang complaint described above. In March 2005, Tacoma Power filed an appeal with the United States Court of Appeals for the Ninth Circuit. Because the resolution of this lawsuit remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this lawsuit will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur

in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Public Utility District No. 1 of Snohomish County
On June 27, 2005, the United States Supreme Court denied a Petition For a Writ of Certiorari filed by Public Utility District No. 1 of Snohomish County on November 5, 2004, which requested the Court to consider whether the filed rate doctrine applies for market-based rates so as to preempt state law antitrust and consumer fraud actions based upon alleged fraud and manipulation of electricity markets operated under market-based rate tariffs. This petition was seeking United States Supreme Court review of the decision of the United States Court of Appeals for the Ninth Circuit on September 10, 2004, which held that the filed rate doctrine and field and conflict preemptions bar such actions. Although this case did not directly involve Avista Corp. and its subsidiaries, the outcome could have a bearing on pending litigation and regulatory proceedings affecting Avista Corp. and its subsidiaries discussed above.

State of Montana Proceedings
On June 30, 2003, the Attorney General of the State of Montana (Montana AG) filed a complaint in the Montana District Court on behalf of the people of Montana and the Flathead Electric Cooperative, Inc. against numerous companies, including Avista Corp. The complaint alleges that the companies illegally manipulated western electric and natural gas markets in 2000 and 2001. This case was subsequently moved to the United States District Court for the District of Montana; however, it has since been remanded back to the Montana District Court.

The Montana AG also petitioned the Montana Public Service Commission (MPSC) to fine public utilities $1,000 a day for each day it finds they engaged in alleged "deceptive, fraudulent, anticompetitive or abusive practices" and order refunds when consumers were forced to pay more than just and reasonable rates. On February 12, 2004, the MPSC issued an order initiating investigation of the Montana retail electricity market for the purpose of determining whether there is evidence of unlawful manipulation of that market. The Montana AG has requested specific information from Avista Energy and Avista Corp. regarding their transactions within the State of Montana during the period from January 1, 2000 through December 31, 2001.

Because the resolution of these proceedings remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that these proceedings will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Montana Public School Trust Fund Lawsuit
In October 2003, a lawsuit was filed by Richard Dolan and Denise Hayman in the United States District Court for the District of Montana against all private owners of hydroelectric dams in Montana, including Avista Corp. The lawsuit alleges that the hydroelectric facilities are located on state-owned riverbeds and the owners have never paid compensation to the state's public school trust fund. The lawsuit requests lease payments dating back to the construction of the respective dams and also requests damages for trespassing and unjust enrichment. An Amended Complaint adding Great Falls Elementary School District No. 1 and Great Falls High School District No. 1A was filed on January 16, 2004. On February 2, 2004, the Company filed its motion to dismiss this lawsuit; PacifiCorp and PPL Montana, as the other named defendants also filed a motion to dismiss, or joined therein. On May 10, 2004, the Montana AG filed a complaint on behalf of the state to join in this lawsuit to allegedly protect and preserve state lands/school trust lands from use without compensation. On July 19, 2004, the defendants (including Avista Corp.) filed a motion to dismiss the Montana AG's complaint. On September 29, 2004, the Court granted the motion to dismiss filed with respect to plaintiffs Richard Dolan, Denise Hayman and the school districts. However, the motion to dismiss the Montana AG's complaint was denied, citing, among other things, that the FERC does not have exclusive jurisdiction over this matter. Subsequently, in response to the motions of the defendants, the federal magistrate judge on January 19, 2005, filed recommendations that the federal court order on the merits be vacated based on lack of jurisdiction of the Court. On November 12, 2004, the defendants (including Avista Corp.) filed a petition for declaratory relief in Montana State Court requesting the resolution of the controversy that the plaintiffs raised in federal court. On November 24, 2004, the Montana AG filed an answer, counterclaim and motion for summary judgment. The defendants have filed responses to the Montana AG's motion for summary judgment. On June 8, 2005, Avista Corp. moved for leave to amend its complaint to, inter alia, add two causes of action relating to breach of contract and negligent

misrepresentation arising out of its Clark Fork Settlement Agreement with the State of Montana. On June 28, 2005, the Montana State Court heard the motion of summary judgment of the Montana AG and took the matter under advisement. Because the resolution of this lawsuit remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this lawsuit will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Colstrip Generating Project Complaint

In May 2003, various parties (all of which are residents or businesses of Colstrip, Montana) filed a consolidated complaint against the owners of the Colstrip Generating Project (Colstrip) in Montana District Court. Avista Corp. owns a 15 percent interest in Units 3 & 4 of Colstrip. The plaintiffs allege damages to buildings as a result of rising ground water, as well as damages from contaminated waters leaking from the lakes and ponds of Colstrip. The plaintiffs are seeking punitive damages, an order by the court to remove the lakes and ponds and the forfeiture of all profits earned from the generation of Colstrip. The owners of Colstrip have undertaken certain groundwater investigation and remediation measures to address groundwater contamination. These measures include improvements to the lakes and ponds of Colstrip. The Company intends to continue to work with the other owners of Colstrip in defense of this complaint. Because the resolution of this lawsuit remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this lawsuit will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Environmental Protection Agency Administrative Compliance Order

In December 2003, PPL Montana, LLC, as operator of Colstrip, received an Administrative Compliance Order (ACO) from the Environmental Protection Agency (EPA) pursuant to the Clean Air Act (CAA). The ACO alleges that Colstrip Units 3 & 4 have been in violation of the CAA permit at Colstrip since 1980. The permit required Colstrip to submit for review and approval by the EPA an analysis and proposal for reducing emissions of nitrogen oxides to address visibility concerns if, and when, EPA promulgates Best Available Retrofit Technology requirements for nitrogen oxide emissions. The EPA is asserting that regulations it promulgated in 1980 triggered this requirement. Avista Utilities and PPL Montana, LLC believe that the ACO is unfounded and PPL Montana, LLC is discussing the matter with the EPA. The ACO does not expressly seek penalties, and it is unclear at this time what, if any, additional control technology the EPA may consider to be required. Accordingly, the costs to install any additional controls for nitrogen oxides, if required, cannot be estimated at this time. The owners of Colstrip are engaged in settlement negotiations on these matters with the EPA, the Department of Environmental Quality (Montana DEQ) and the Northern Cheyenne Tribe. Because the resolution of these issues remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that these issues will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

In addition, the Montana DEQ questioned whether the permit limits for sulfur dioxide emissions from Colstrip Units 3 & 4 were too high under provisions of the CAA that limit allowable emissions from sources built after 1978. PPL Montana, LLC, completed an ambient air quality modeling demonstration and, based on that study, voluntarily proposed to the Montana DEQ that the permit include restrictions related to sulfur dioxide emissions. The Montana DEQ has accepted this proposal and has issued an amended operating permit and issued an amended air permit, which the owners of Colstrip believe will resolve this matter with respect to the Montana DEQ.

Colstrip Royalty Claim

The Western Energy Company (WECO) supplies coal to the owners of Colstrip Units 3 & 4 under a Coal Supply Agreement and a Transportation Agreement. The Minerals Management Service (MMS) of the United States Department of the Interior issued an order to WECO to pay additional royalties concerning coal delivered to Colstrip Units 3 & 4 via the conveyor belt (approximately 4.46 miles long). The owners of

Colstrip Units 3 & 4 take delivery of the coal at the western end (beginning) of the conveyor belt. The order asserts that additional royalties are owed MMS as a result of WECO not paying royalties in connection with revenue received by WECO from the owners of Colstrip Units 3 & 4 under the Transportation Agreement during the period October 1, 1991 through December 31, 2001. WECO's appeal to the MMS was substantially denied in March 2005; WECO has now appealed the order to the Board of Land Appeals of the U.S. Department of the Interior. The entire appeal process could take several years to resolve. The owners of Colstrip Units 3 & 4 are monitoring the appeal process between WECO and MMS.

WECO has indicated to the owners of Colstrip Units 3 & 4 that if WECO is unsuccessful in the appeal process, WECO will seek reimbursement of any royalty payments by passing these costs through the Coal Supply Agreement. The owners of Colstrip Units 3 & 4 advised WECO that their position would be that these claims are not allowable costs per the Coal Supply Agreement nor the Transportation Agreement in the event the owners of Colstrip Units 3 & 4 were invoiced for these claims. Because the resolution of this issue remains uncertain, legal counsel cannot express an opinion on the extent, if any, of the Company's liability. However, based on information currently known to the Company's management, the Company does not expect that this issue will have a material adverse effect on its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

Hamilton Street Bridge Site

A portion of the Hamilton Street Bridge Site in Spokane, Washington (including a former coal gasification plant site that operated for approximately 60 years until 1948) was acquired by the Company through a merger in 1958. The Company no longer owns the property. In January 1999, the Company received notice from the State of Washington's Department of Ecology (DOE) that it had been designated as a potentially liable party (PLP) with respect to any hazardous substances located on this site, stemming from the Company's past ownership of the former gas plant site. In its notice, the DOE stated that it intended to complete an on-going remedial investigation of this site, complete a feasibility study to determine the most effective means of halting or controlling future releases of substances from the site, and to implement appropriate remedial measures. The Company responded to the DOE acknowledging its listing as a PLP, but requested that additional parties also be listed as PLPs. In the spring of 1999, the DOE named two other parties as additional PLPs.

The DOE, the Company and another PLP, Burlington Northern & Santa Fe Railway Co. (BNSF), signed an Agreed Order in March 2000 that provided for the completion of a remedial investigation and a feasibility study. The work to be performed under the Agreed Order includes three major technical parts: completion of the remedial investigation; performance of a focused feasibility study; and implementation of an interim groundwater monitoring plan. During the second quarter of 2000, the Company received comments from the DOE on its initial remedial investigation, and then submitted another draft of the remedial investigation, which was accepted as final by the DOE. After responding to comments from the DOE, the feasibility study was accepted by the DOE during the fourth quarter of 2000. After receiving input from the Company and the other PLPs, the final Cleanup Action Plan (CAP) was issued by the DOE in August 2001. In September 2001, the DOE issued an initial draft Consent Decree for the PLPs to review. During the first quarter of 2002, the Company and BNSF signed a cost sharing agreement. In September 2002, the Company, BNSF and the DOE finalized the Consent Decree to implement the CAP. The third PLP has indicated it will not sign the Consent Decree. It is currently estimated that the Company's share of the costs will be less than $1.0 million. The Engineering and Design Report for the CAP was submitted to the DOE in January 2003 and approved by the DOE in May 2003. Work under the CAP commenced during the second quarter of 2003. In September 2004, a Site Preparation Agreement was reached with the third PLP with respect to the logistics of the CAP. The third PLP has completed the site preparation; work under the CAP as directed by the Company and BNSF is expected to be completed by the end of 2005.

Spokane River

In March 2001, the DOE informed Avista Development, a subsidiary of Avista Capital, of a health advisory concerning PCBs found in fish caught in a portion of the Spokane River. In June 2001, Avista Development received official notice that it had been designated as a PLP with respect to contaminated sites on the Spokane River. The DOE discovered PCBs in fish and sediments in the Spokane River in the 1970s and 1980s. In the 1990s, the DOE performed subsequent sampling of the river and identified potential sources of the PCBs, including the Spokane Industrial Park (SIP) and a number of other entities in the area. The SIP, renamed Pentzer Development Corporation (Pentzer Development) in 1990, operated a wastewater treatment plant at the site until it was closed in December 1993. The SIP's treatment plant discharged to the Spokane River under the terms of a National Pollutant Discharge Elimination System permit issued by the

DOE. Pentzer Development sold the property in 1996 and merged with Avista Development in 1998. Avista Development filed a response to this notice in August 2001. In December 2001, the DOE confirmed Avista Development's status as a PLP and named at least two other PLPs in this matter. In April 2003, the DOE released its study of wastewater and sludge handling from facilities owned by a fourth PLP. The DOE study indicated that the fourth PLP continued to discharge PCBs into the Spokane River. The DOE issued the fourth PLP a final notice of participation as a PLP on April 30, 2003.

During the fourth quarter of 2002, Avista Development and one other PLP, Kaiser Aluminum & Chemical Corporation (Kaiser), finalized the Consent Decree and Scope of Work for the remedial investigation and feasibility study of the site, which was formally entered into Spokane County Superior Court in January 2003. The other PLPs have not been participating in the process. As directed by Avista Development and Kaiser, the field-work for the remedial investigation began in April 2003 and was completed by the end of 2003 with a draft remedial investigation report and feasibility study technical memorandum submitted to the DOE in March 2004. In December 2004, the Company and Kaiser filed the draft final remedial investigation and feasibility study with the DOE. In March 2005, the DOE issued its draft Cleanup Action Plan (CAP), which was materially consistent with the draft final feasibility study filed by the Company and Kaiser. The draft CAP was open for public review and comment, along with the draft final remedial investigation and feasibility study and the state cleanup consent decree until May 6, 2005. Based on public comments received, the DOE has only made minor modifications to the draft CAP, remedial investigation and feasibility study.

The Company has entered into a tentative settlement with the DOE and Kaiser relating to the remediation of the site. Under the tentative agreement, the Company will perform the selected remedial action. Kaiser, which is presently operating under bankruptcy protection, has agreed to pay the Company approximately 50 percent of the current estimate of the total costs, which will be used by the Company to fund the costs of the remediation. On June 27, 2005, the Kaiser bankruptcy judge signed an order approving Kaiser's motion to enter into a consent decree for settlement with the Company and the State of Washington. During 2004, the Company accrued its share of the total estimated costs, which was not material to the Company's consolidated financial condition or results of operations. Because of uncertainties with respect to, among other things, any future cost sharing agreement with the non-participating PLPs, Kaiser's bankruptcy, the final cleanup action plan required by the DOE and unforeseen site conditions, the Company's estimate of its liability could change in future periods. Based on information currently known to the Company's management, the Company does not believe that such a change would be material to its financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimate of the liability. Such a change, should it occur, could be significant.

Harbor Oil Site

On June 29, 2005, EPA Region 10 provided notification to Avista Corp. that the EPA had determined that hazardous substances were released at the Harbor Oil site in Portland, Oregon and that Avista Corp. may be liable for investigation and cleanup of the site under federal superfund. Harbor Oil's primary business was the collection and blending of used oil for sale as fuel to ships at sea. Avista Corp. used Harbor Oil for the recycling of waste oil and non-PCB transformer oil in the late 1980's and early 1990's. The initial indication from the EPA is that the site may be contaminated with PCBs, petroleum hydrocarbons, chlorinated solvents and heavy metals.

Thirteen other companies, including the owner of the Harbor Oil site, received a similar notice. They include the Bonneville Power Administration, Portland General Electric Corporation, Northwestern Energy and Unocal Oil. The notice invites all named parties to meet among themselves within the next 60 days (from the June 29, 2005 notice date) for purposes of forming a steering committee and entering into an Agreed Order with the EPA to conduct a remedial investigation and feasibility study.

The Company is in the process of gathering and reviewing all records related to Harbor Oil. Based on the review to this point, the Company does not believe it is a major contributor to this potential environmental contamination. However, there is currently not enough information to allow the Company to assess the probability or amount of a liability, if any, being incurred. As such, it is currently not possible to make an estimate of any liability at this time.

Lake Coeur d'Alene

In July 1998, the United States District Court for the District of Idaho issued its finding that the Coeur d'Alene Tribe of Idaho (Tribe) owns, among other things, portions of the bed and banks of Lake Coeur d'Alene (Lake) lying within the current boundaries of the Coeur d'Alene Reservation. This action had been brought by the United States on behalf of the Tribe against the state of Idaho. The Company was not a party to this

action. The United States District Court decision was affirmed by the United States Court of Appeals for the Ninth Circuit. The United States Supreme Court affirmed this decision in June 2001. This will result in, among other things, the Company being liable to the Tribe for compensation for the use of reservation lands under Section 10(e) of the Federal Power Act.

The Company's Post Falls Hydroelectric Generating Station (Post Falls), a facility constructed in 1906 with a present capability of 18 MW, utilizes a dam on the Spokane River downstream of the Lake which controls the water level in the Lake for portions of the year (including portions of the lakebed owned by the Tribe). The Company has other hydroelectric facilities on the Spokane River downstream of Post Falls, but these facilities do not affect the water level in the Lake. The Company and the Tribe are engaged in discussions with respect to past and future compensation (which may include interest) for use of the portions of the bed and banks of the Lake, which are owned by the Tribe. If the parties cannot agree on the amount of compensation, the matter could result in litigation. The Company cannot predict the amount of compensation that it will ultimately pay or the terms of such payment. However, the Company intends to seek recovery of any amounts paid through the rate making process.

Spokane River Relicensing

The Company operates six hydroelectric plants on the Spokane River, and five of these (Long Lake, Nine Mile, Upper Falls, Monroe Street and Post Falls) are under one FERC license and referred to herein as the Spokane River Project. The sixth, Little Falls, is operated under separate Congressional authority and is not licensed by the FERC. The license for the Spokane River Project expires on August 1, 2007; the Company filed a Notice of Intent to Relicense in July 2002. The formal consultation process involving planning and information gathering with stakeholder groups has been underway since that time. The Company filed its license application with the FERC in July 2005. The Company has requested the FERC to consider a separate license for Post Falls from the other four hydroelectric plants. If granted, new licenses would have a term of 30 to 50 years. In the license application, the Company has proposed a number of measures intended to address the impact of the Spokane River Project and enhance resources associated with the Spokane River. Currently, certain environmental measures in the Company's license application have estimated costs of $3.2 million per year. For certain items, costs cannot be reasonably estimated at this time. The total annual operating and capitalized costs associated with the relicensing of the Spokane River Project will become better known and estimable as the process continues over the next two years. The Company intends to seek recovery of relicensing costs through the rate making process.

Clark Fork Settlement Agreement

Dissolved atmospheric gas levels exceed state of Idaho and federal water quality standards downstream of the Cabinet Gorge Hydroelectric Generating Project (Cabinet Gorge) during periods when excess river flows must be diverted over the spillway. Under the terms of the Clark Fork Settlement Agreement, the Company developed an abatement and mitigation strategy with the other signatories to the agreement and submitted the Gas Supersaturation Control Program (GSCP) in December 2002 for review and approval to the Idaho Department of Environmental Quality (DEQ) and the U.S. Fish and Wildlife Service. In February 2004, the Idaho DEQ and the U.S. Fish and Wildlife Service approved the GSCP. In January 2005, the FERC issued an order approving the GSCP. The GSCP provides for the opening and modification of one and, potentially, both of the two existing diversion tunnels built when Cabinet Gorge was originally constructed. Streamflows would be diverted to the tunnels when these flows are in excess of turbine capacity. The cost of modifying the first tunnel is currently preliminarily estimated to be $38 million (including AFUDC and inflation) and will be incurred between 2004 and 2010 ($0.6 million incurred through June 30, 2005), with the majority of these costs being incurred in 2007 through 2009. The second tunnel would be modified only after evaluation of the performance of the first tunnel and such modifications would commence no later than 10 years following the completion of the first tunnel. It is currently preliminarily estimated that the costs to modify the second tunnel would be $26 million (including AFUDC and inflation). As part of the GSCP, the Company provides $0.5 million annually as mitigation for aquatic resources that might be adversely affected by high dissolved gas levels. Mitigation funds will continue until the modification of the second tunnel commences or if the second tunnel is not modified to an agreed upon point in time commensurate with the biological effects of high dissolved gas levels. The Company intends to seek recovery of the costs for the modification of Cabinet Gorge and the mitigation payments through the rate making process.

The operating license for the Clark Fork Project describes the approach to restore bull trout populations in the project areas. Using the concept of adaptive management and working closely with the U.S. Fish and Wildlife Service, the Company is evaluating the feasibility of fish passage. The results of these studies will help the Company and other parties determine the best use of funds toward continuing fish passage efforts or other fish population enhancement measures.

Other Contingencies

In the normal course of business, the Company has various other legal claims and contingent matters outstanding. The Company believes that any ultimate liability arising from these actions will not have a material adverse impact on the Company's financial condition, results of operations or cash flows. It is possible that a change could occur in the Company's estimates of the probability or amount of a liability being incurred. Such a change, should it occur, could be significant.

The Company's collective bargaining agreement with the International Brotherhood of Electrical Workers represents approximately 50 percent of all Avista Utilities employees. The agreement with the local union in Washington and Idaho representing the majority (approximately 90 percent) of the bargaining unit employees expired on March 25, 2005. Two local agreements in Oregon, which cover approximately 50 employees, expired on March 31, 2005. Negotiations are currently ongoing with respect to the labor agreements that expired in March 2005 and the Company does not expect any disruption to its operations.

Exhibit G

Unconsolidated Statement of Income
For the Six Months Ended June 30, 2005
Dollars in Thousands

		pro forma
Operating Revenues	$ 558,035	$ 558,035
Operating Expenses:		
Resource costs	294,435	294,435
Admin. And general	36,183	36,183
Operations and Maintenance	53,032	53,032
Depreciation and Amortization	41,454	41,454
Taxes other than income taxes	36,064	36,064
Total operating expenses	460,735	460,735
Gain on Sale of natural gas distribution properties	3,209	3,209
Income from Operations	100,509	100,509
Other Income (Expense):		
Interest expense	(45,726)	*(45,508)
Capitalized interest	587	587
Other income - net	3,318	3,318
Total other income (expense) - net	(41,821)	(41,603)
Income Before Income Taxes	58,688	58,906
Income Taxes	21,295	21,374
Net Income	37,393	36,532

*See exhibit H for calculation.

Exhibit H

AVISTA CORPORATION
An analysis of the income statement pro forma
At June 30, 2005

DEBT
The estimated amount of issued debt would be $100,000,000.00 at 7%.

Total costs spread over 30 years.
($100,000,000 x 2.0%) = $2,000,000 / 30yr = $66,667 per year

Annual interest
($100,000,000 x 7.0%) = $7,000,000

Total annual costs
$7,000,000 + $66,667 = $7,066,667

Savings on retirement of outstanding borrowings
($100,000,000 x 7.285%) = $7,285,000

Total new costs
$7,066,667 - $7,285,000 = -218,333

Exhibit J

AVISTA CORPORATION
Proposed journal entry
Dollars in Millions

	DR	CR
Long-Term Debt		$100,000
Long-term Debt maturities	$ 20,000	
Rathdrum Lease termination	56,260	
Cash (short-term borrowings)	24,740	
	$100,000	$100,000

ORDER NO.

ENTERED{PRIVATE **}**

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UF ____

In the Matter of the Application of	)	
AVISTA CORPORATION	)	APPLICATION
for an Order authorizing the issuance and sale of	)	UF-
Debt Securities not to exceed $100,000,000	)	

Avista Corporation (hereinafter called "Applicant") hereby requests the Public Utility Commission of Oregon to enter a written order establishing that the proposed offering, issuance and sale by the Applicant of up to $100,000,000 of secured or unsecured, fixed or floating rate bonds, notes and other evidences of indebtedness, including, without limitation, assumption of any obligation or liability as guarantor, indorser, surety or otherwise in respect to the securities of any other person, firm, corporation, or affiliate of the Applicant, and any refunding, extension, renewal or replacement of any of the foregoing (the "Securities") in accordance with OAR 860-27-0025 and -0030.

At its _____, public meeting, the Commission decided to grant the application.

Based on the Application and the Commission's records, the Commission makes the following:

FINDINGS OF FACT

The Company provides natural gas service to the public in Oregon.

The Company proposes to issue and sell up to $100,000,000 of debt for various corporate purposes.

There is no indication that the proposed offering will impair the Company's ability to provide its public utility service.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

The Offerings

ORS 757.415(1) provides that:

> A public utility may issue [stocks and bonds, notes, and other evidences of indebtedness] for the following purposes and no others....:
>
> (a) The acquisition of property, or the construction, completion, extension, or improvement of its facilities.
>
> (b) The improvement or maintenance of its service.
>
> (c) The discharge or lawful refunding of its obligations.
>
> (d) The reimbursement of money actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the

> issue of stocks or bonds, notes or other evidences of indebtedness, or securities of such public utility, for any of the purposes listed in paragraphs (a) to (c) of this subsection except the maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditures were made.

When an application involves refunding of obligations, the applicant also must show that the original borrowings were made for a permissible purpose. Avion Water Company, Inc., UF 3903, Order No. 83244; Pacific Power & Light Co., UF 3749, Order No. 81-745 at 5.

ORS 757.415(2) provides that:

> [The applicant] shall secure from the commission an order stating:
>
> (a) The amount of the issue and the purposes to which the proceeds are to be applied; and
>
> (b) In the opinion of the commission, the [proceeds] reasonably [are] required for the purposes specified in the order and compatible with the public interest, which is necessary or appropriate for or consistent with the proper performance by the applicant of service as a public utility, and will not impair its ability to perform that service; and
>
> (c) Except as otherwise permitted in the order in the case of [long-term debt], such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The amount of the offering will be not more than $100,000,000 of debt securities. The Applicant will use the funds from the offer for the following purpose: to retire or exchange one or more outstanding stock, bond, or note issuances. To the extent that the obligations are discharged or refunded, those obligations or their precedents were used for purposes described by ORS 757.415(1)(a), (b), or (e).

Utility facilities are long-term assets which should be financed with long-term capital. The proposed expenditures are not reasonably chargeable to operating expenses or income.

The Commission believes that the proposed transactions are reasonably required for the purposes stated. The Company's proposed issuances are compatible with the public interest and consistent with the proper performance of the Company's public utility service. The proposed transactions will not impair the Company's ability to perform that service.

For rate-making purposes, the Commission reserves judgment on the reasonableness of the Company's capital costs and capital structure. In its next rate proceeding, the Company will be required to show that its capital costs and structure are just and reasonable. See ORS 757.210.

CONCLUSIONS OF LAW

1. The Avista Corporation is a public utility subject to the Commission's jurisdiction.

2. The application meets the requirements of ORS 757.415.

3. The Application should be granted.

ORDER

IT IS THEREFORE ORDERED that:

1. The Application of Avista Corporation for authority to issue and sell up to $100,000,000 of debt for various corporate purposes.

2. The proceeds must be used for the purposes set forth in ORS 757.415(1) (a), (b), (c) and (d).

3. Avista Corporation shall file as they become available:

(a) The Report of Securities Issued required by OAR 860-27-030(4).

(b) Verified copies of any agreement entered into in connection with the issuance of the Securities pursuant to this order not previously filed with the Commission.

(c) A verified statement setting forth in reasonable detail the disposition of the proceeds of each offering made pursuant to this order.

Made, entered, and effective _____.

BY THE COMMISSION:

_____
Roger Hamilton
Commissioner

_____
Ron Eachus
Commissioner

_____
Joan Smith
Commissioner

September 20, 2005

Public Utility Commission of Oregon
Administrative Hearings Division
550 Capitol St NE #215
PO Box 2148
Salem OR 97308-2148

Attention: Ms. Janice Fulker, Administrator
Tariffs and Data Analysis
Utility Program

UF _____

Transmitted herewith are one executed and two conformed copies of an application for approval of an order authorizing security issuance.

The application contains as much information as is presently known. As other applicable data or updated documents become available, they will be forwarded to your attention.

The Company requests to receive an Order of Approval from the Commission by October 28, 2005. When complete, please send two (2) executed copies of the Order of Approval to:

Ms. Diane C. Thoren, Assistant Treasurer
Avista Corporation
1411 East Mission Avenue
Spokane WA 99202-2600

If any questions arise or additional information is needed, please do not hesitate to contact Paul Kimball me at 509-495-4584.

Sincerely,

Diane Thoren
Assistant Treasurer

Enclosures