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IDAHO PUBLIC
UTILITIES COMMISSION

THOMPSON RIVER CO-GEN, LLC
a Colorado Company

Complainant

vs.

AVISTA CORPORATION, dba Avista Utilities
a Washington Corporation

Respondent

Case No. AVU-E-05-07

EXHIBIT No. 7

to

Direct Testimony of
L.Underwood, Thompson River Co-Gen, LLC

Mike Underwood

From: Mike Underwood [lmuco@msn.com]
Sent: Tuesday, June 14, 2005 8:07 PM
To: dave.miller@avistacorp.com
Cc: Todd Savage (todds@savagecompanies.com); Lewis Benson (bensonl@savageind.com); *Bates, Barry; Mike Uda (muda@doneylaw.com)
Subject: Firm Energy Sales Agreement
Attachments: Cover Letter, Firm Energy Sales Agreement, 6-14-05.pdf; Avista - TRC Firm Energy Sales Agreement, 6-14-05.pdf; Avista Letter March 11, 2005.pdf

Dave:

Thank you for our conversation today. Please proceed with forwarding any information released by TRC to the IPUC Staff, as we discussed. We appreciate the opportunity to work with you and your team. To facilitate our discussions, I am providing a letter and contract executed by TRC, and in form recently been approved by the IPUC and executed by IPC. As indicated, we would like to forward this information to the IPUC Staff for their review and comment as well. Thank you for your time and review. Please contact me at your convenience.

Regards-

Mike

THOMPSON RIVER CO-GEN, LLC

8 First Street East, Suite 205

Kalispell, MT 59901

Phone (406) 257-7551 Fax (406) 257-7578

Avista Corp.
Attn: Dave Miller, Wholesale Power Manager
1411 East Mission MSC-7
P.O. Box 3727
Spokane, WA 99220-3727

Re: Thompson River Co-Gen Power Purchase Agreement

Dear Dave,

Thompson River has been pleased to respond to your questions regarding the operation of the Thompson River Co-Gen facility and the methods and plans that are in place to deliver a flat 10 MW to Avista in its Idaho service territory. We appreciate the past months of dialogue, beginning with my initial March 11, 2005 letter, our meeting in Spokane on May 12th, the exchange of Project information, and our diligent and timely responses to your questions. At this time we desire to proceed in the execution of a standard offer avoided cost contract.

Although the Project may, at times, exceed ten megawatts, TRC would not attempt to schedule and Avista would not be required to purchase any excess energy. Specifically, adequate assurance is provided due to the fact that the transmission agreement would limit the hourly schedule to 10 MW. TRC provides resource integration benefits to Avista by providing a firm, flat energy schedule.

In addition, the Idaho Commission has ruled on this point such that Avista may purchase up to 10 MW at the published avoided cost rates. In Order No. 29632, which was issued just six months ago, the Commission stated:

By way of example, a QF that commits to deliver a monthly total of 7,000 kWh in January and delivers greater than 90% of the commitment amount that month will receive the posted rate for all energy up to 110% of the 7,000 kWh commitment amount and 85% of the Mid-C market price for energy exceeding 110% up to the 10 MW cap. The QF will receive no payment for any energy provided above the 10 MW cap.

The Commission's response to the possibility that a QF may exceed its 10MW cap for entitlement to the published rates is to provide that all such excess energy not be purchased. As communicated, Avista will not receive any excess energy, the Project does not significantly produce more than 10 MW and TRC is providing a resource, which can be easily integrated into the Avista system.

In reading the Commission's Order No. 29632, it is clear that one of the driving forces behind that Order was a concern over the predictability of QF resources. That is why the Commission imposed the 90/110 band. By delivering a flat 10 MW product, we believe that we are

exceeding the Commission's expectations and are providing Avista with additional, albeit uncompensated, value. A firm resource will no doubt compliment Avista's excellent tradition of reliability while benefiting your customers and following Commission precedence.

I am informed that Avista has not recently executed a contract under the IPUC-approved standard offer rate. The Idaho Commission has issued several orders in the last two years dealing with specific contract terms and conditions. In order to expedite this process, ensure uniform compliance and in the interest of time, we are tendering the attached contract, for your review and execution. The tendered agreement is identical, except for those items unique to our Project, to the most recent standard offer agreements approved by the Idaho Commission. We understand that your review is important, however the commercial, legal and regulatory provisions have already been approved by the Idaho Commission and your neighboring utility. Thus, we can be confident it is acceptable to your regulators. It is also acceptable to TRC.

The intent of standard offer rates and standardized contracts is to reduce ambiguity and ease the negotiation process for small producers, such as TRC. In short, we believe everything is in place. Having begun development of the Project in 2001, construction has been completed and the plant is now operating. We have secured the necessary transmission to facilitate the delivery and integration of the Project into Avista's service territory at Burke. We believe nothing prevents the immediate execution of the attached agreement. However, we desire to maintain a consistent dialogue and commitment of the parties to consummate this effort. The viability of this Project and ability to complete project financing are reliant upon this long-term agreement.

Thank you for your prompt consideration of this matter. We look forward to coordinating the necessary activities. We realize and respect the fact that Avista desires to effectively communicate with the Commission on regulatory matters. As it pertains to this standard offer contract matter, we would appreciate being included in any discussions with the Commission Staff. In an effort to clearly articulate our desire to pursue this matter and develop a long-term relationship with Avista, I have will provide the Commission staff with a copy of this correspondence.

Sincerely,



Mike Underwood
Manager, Thompson River Co-Gen LLC

Cc: Rick Sterling, Idaho Public Utilities Commission
Mike Uda, Doney, Crowley, Bloomquist & Uda PC
Kelly Flint, Savage Companies
Barry Bates, TRC

FIRM ENERGY SALES AGREEMENT
BETWEEN
AVISTA
AND
THOMPSON RIVER Co-GEN, LLC.
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FIRM ENERGY SALES AGREEMENT
(10 aMW or Less)

THOMPSON RIVER CO-GEN PROJECT

Project Number:

THIS AGREEMENT, entered into on this _____ day of _____ 2005 between THOMPSON RIVER Co-GEN, LLC a Colorado limited liability corporation (Seller), and AVISTA CORP, a Washington corporation ("Avista"), hereinafter sometimes referred to collectively as "Parties" or individually as "Party."

WITNESSETH:

WHEREAS, Seller will own and ensure the maintenance and operation of an electric generation facility; and

WHEREAS, Seller wishes to sell, and Avista is willing to purchase, firm electric energy produced by the Seller's Facility.

THEREFORE, In consideration of the mutual covenants and agreements hereinafter set forth, the Parties agree as follows:

ARTICLE I: DEFINITIONS

As used in this Agreement and the appendices attached hereto, the following terms shall have the following meanings:

- "Commission" - The Idaho Public Utilities Commission.
- 1.2 "Contract Year" - The period commencing each calendar year on the same calendar date as the Operation Date and ending 364 days thereafter.
- .3 "Designated Dispatch Facility" - Avista's System Operations Group, or any subsequent group designated by Avista.
- .4 "Facility" - That electric generation facility owned by the Seller and described in Appendix B of this Agreement.

- 1.5 "Interconnection Facilities" - All facilities required to be installed to interconnect and deliver energy from the Facility to the Transmitting Entity's system including, but not limited to, connection, switching, metering, relaying, communications and safety equipment.
- 1.6 "Initial Capacity Determination" - The process by which Avista confirms that under normal or average design conditions the Facility will deliver at no more than 10 average MW per month and is therefore eligible to be paid the published rates in accordance with Commission Order No. 29646.
- 7 "Losses" - The loss of energy expressed in kilowatt hours (kWh) occurring as a result of the transformation and transmission of energy between the Facility and the Avista electrical system.
- 8 "Market Energy Cost" - As identified herein, shall be \$0.00 per MWH.
- 9 "Material Breach" - A Default (paragraph 20.2.1) subject to paragraph 20.2.2.
- 10 "Maximum Capacity Amount" - The maximum capacity (MW) of the Facility will be as specified in Appendix B of this Agreement.
- 11 "Monthly Net Energy Average MW" - Net Energy as defined in paragraph 1.14 divided by 1,000 divided by the hours in the month ((Net Energy / 1000) / hours in the month). Hours in the month are the calendar days of the month times 24 hours.
- 12 "Monthly Net Energy Amount Average MW" - Monthly Net Energy Amounts as defined in paragraph 6.2 divided by 1,000 divided by the hours in the month. ((Net Energy Amount / 1000) / hours in the month). Hours in the month are the calendar days of the month times 24 hours.
- 13 "Net Energy" - All of the electric energy produced by the Facility less Station Use, less Losses and energy supplied by the Transmitting Entity on behalf of the Seller so that the energy deliveries to Avista will comply with the Transmitting Entity's scheduling requirements specified in Article 10.1.1 of this Agreement, expressed in kilowatt hours (kWh), which Seller commits to deliver as specified in Article VI and the Transmitting Entity(s) schedules and delivers to Avista at the Point(s) of Delivery for the full term of the Agreement. The amount of Net Energy scheduled and delivered to the Avista electrical system will never exceed the Avista Electrical System Allocation specified in paragraph 4.8 of this Agreement.

“Operation Date” – The day commencing at 0001 hours, Mountain Time, following the day that all requirements of paragraph 5.2 have been completed.

“Point of Delivery” – The location specified in Appendix B, where the Transmitting Entity(s) deliver the scheduled Net Energy to the Avista electrical system.

“Prudent Electrical Practices” – Those practices, methods and equipment that are commonly and ordinarily used in electrical engineering and operations to operate electric equipment lawfully, safely, dependably, efficiently and economically.

“Scheduled Operation Date” – The date specified in Appendix B when Seller anticipates achieving the Operation Date.

“Season” – The three periods identified in paragraph 6.2.1 of this Agreement.

“Station Use” – Electric energy that is used to operate equipment that is auxiliary or otherwise related to the production of electricity by the Facility.

“Surplus Energy” – (1) Net Energy scheduled and delivered by the Transmitting Entity(s) on the Seller’s behalf and accepted by Avista during the month which exceeds 110% of the monthly Net Energy Amount for the corresponding month specified in paragraph 6.2. or (2) If the Net Energy scheduled and delivered by the Transmitting Entity(s) on the Seller’s behalf and accepted by Avista during the month is less than 90% of the monthly Net Energy Amount for the corresponding month specified in paragraph 6.2. then all Net Energy scheduled and delivered by the Transmitting Entity(s) to Avista on the Seller’s behalf for that given month or (3) All Net Energy scheduled and delivered by the Transmitting Entity(s) on the Seller’s behalf and accepted by Avista prior to the Operation Date.

“Total Cost of the Facility” - The total cost of structures, equipment and appurtenances.

“Transmitting Entity(s)” - The specified scheduling agent of the Seller, which will administer and ensure compliance with the Transmission Agreement(s) referred to in paragraph 10. and its successors and assigns, necessary to provide the firm energy schedule to Avista at the Point of Delivery.

ARTICLE II: NO RELIANCE ON AVISTA

2. Seller Independent Investigation - Seller warrants and represents to Avista that in entering into this Agreement and the undertaking by Seller of the obligations set forth herein, Seller has investigated and determined that it is capable of performing hereunder and has not relied upon the advice, experience or expertise of Avista in connection with the transactions contemplated by this Agreement.
- 2.2 Seller Independent Experts - All professionals or experts including, but not limited to, engineers, attorneys or accountants, that Seller may have consulted or relied on in undertaking the transactions contemplated by this Agreement have been solely those of Seller.

ARTICLE III: WARRANTIES

- 3.1 No Warranty by Avista - Any review, acceptance or failure to review Seller's design, specifications, equipment or facilities shall not be an endorsement or a confirmation by Avista and Avista makes no warranties, expressed or implied, regarding any aspect of Seller's design, specifications, equipment or facilities, including, but not limited to, safety, durability, reliability, strength, capacity, adequacy or economic feasibility.
- 3.2 Qualifying Facility Status - Seller warrants that the Facility is a "Qualifying Facility," as that term is used and defined in 18 CFR §292.207. After initial qualification, Seller will take such steps as may be required to maintain the Facility's Qualifying Facility status during the term of this Agreement and Seller's failure to maintain Qualifying Facility status will be a Material Breach of this Agreement. Avista reserves the right to review the Seller's Qualifying Facility status and associated support and compliance documents at anytime during the term of this Agreement.

ARTICLE IV: CONDITIONS TO ACCEPTANCE OF ENERGY

4. Prior to the Operation Date and as a condition of Avista's acceptance of deliveries of energy from the Seller, Seller shall:
- 4.1.1 Submit proof to Avista that all licenses, permits or approvals necessary for Seller's

operations have been obtained from applicable federal, state or local authorities, including, but not limited to, evidence of compliance with Subpart B, 18 CFR 292.207.

Opinion of Counsel - Submit to Avista an Opinion Letter signed by an attorney admitted to practice and in good standing in the State of Montana providing an opinion that Seller's licenses, permits and approvals as set forth in paragraph 4.1.1 above are legally and validly issued, are held in the name of the Seller and, based on a reasonable independent review, counsel is of the opinion that Seller is in substantial compliance with said permits as of the date of the Opinion Letter. The Opinion Letter will be in a form acceptable to Avista and will acknowledge that the attorney rendering the opinion understands that Avista is relying on said opinion. Avista's acceptance of the form will not be unreasonably withheld. The Opinion Letter will be governed by and shall be interpreted in accordance with the legal opinion accord of the American Bar Association Section of Business Law (1991).

4. .3 Initial Capacity Determination - Submit to Avista such data as Avista may reasonably require performing the Initial Capacity Determination. Such data may include but not be limited to, equipment specifications, prime mover data, resource characteristics, normal and/or average operating design conditions and Station Use data. Upon receipt of this information, Avista will review the provided data and if necessary, request additional data to complete the Initial Capacity Determination within a reasonable time.

Engineer's Certifications - Submit an executed Engineer's Certification of Design & Construction Adequacy and an Engineer's Certification of Operations and Maintenance (O&M) Policy as described in Commission Order No. 21690. These certificates will be in the form specified in Appendix C but may be modified to the extent necessary to recognize the different engineering disciplines providing the certificates.

Insurance - Submit written proof to Avista of all insurance required in Article XIV.

Transmission Agreement(s) - Provide Avista with a copy of all Firm Transmission Agreements executed by the Seller and the Transmitting Entity(s) to enable the Seller to

deliver the Net Energy from this Facility to the Avista electrical system at the Point(s) of Delivery identified within Appendix B and in the energy amounts designated in paragraph 4.8 of this Agreement. These Firm Transmission Agreements must be in a form acceptable to Avista. Avista's acceptance will not be unreasonably withheld.

4.1.7 Written Acceptance – Request and obtain written confirmation from Avista that all conditions to acceptance of energy have been fulfilled. Such written confirmation shall not be unreasonably withheld by Avista.

4.8 Avista Electrical System Allocation – As of the date of this Agreement, the Seller has requested to deliver energy to Avista in the following maximum amounts at the designated Points of Delivery on the Avista electrical system for the designated calendar months:

Jan	10 MW BURKE	Jul	10 MW BURKE
Feb	10 MW BURKE	Aug	10 MW BURKE
Mar	10 MW BURKE	Sep	10 MW BURKE
Apr	10 MW BURKE	Oct	10 MW BURKE
May	10 MW BURKE	Nov	10 MW BURKE
Jun	10 MW BURKE	Dec	10 MW BURKE

Avista agrees to accept the Seller's energy from the Transmitting entity(s) at the requested Points of Delivery at these maximum amounts and for the requested calendar month as designated, contingent upon the Seller complying and maintaining all other requirements of this Agreement. Under no circumstances will the Avista Electrical System Allocation exceed the Maximum Capacity amount.

4.1.8.1 Avista Adjustment of Electrical System Allocation –

- a.) Annual Review Reduction – Annually, at the end of each Contract Year, Avista may review the Seller's Net Energy deliveries to Avista. If Avista determines that any of the Monthly Net Energy Average MW are less than the month's MW amount designated in paragraph 4.8 and this pattern is consistent with previous months and/or years, Avista may, after notice to the Seller, reduce the monthly Avista Electrical System Allocation for this

PAGES 7 AND 8

OF THE FIRM ENERGY SALES

AGREEMENT WITH AVISTA

OF EXHIBIT 7 OF

THOMPSON RIVER CO-GEN'S

DIRECT TESTIMONY

AND EXHIBITS

ARE MISSING

previously paid deposit and the appropriate refund or additional billing will be processed. Seller will be required to pay any additional billing due Avista within 30 days of Seller's receipt of the billing invoice.

ARTICLE V: TERM AND OPERATION DATE

5. Term - Subject to the provisions of paragraph 5.2 below, this Agreement shall become effective on the date first written and shall continue in full force and effect for a period of twenty (20) Contract Years from the Operation Date.
- 5.2 Operation Date - The Operation Date may occur only after the Facility has achieved all of the following:
- a) Completed all Conditions to Acceptance of Energy as specified in Article IV.
 - b) Commission approval of this Agreement in a form acceptable to Avista has been received.
 - c) Seller has demonstrated to Avista's satisfaction that all documents are complete and the Facility is complete and able to provide energy in a consistent, reliable and safe manner and has requested an Operation Date in written form.
 - d) Seller has received written confirmation from Avista of the Operation Date. This confirmation will not be unreasonably withheld by Avista.
- 5.3 Seller's failure to achieve the Operation Date within ten (10) months of the Scheduled Operation Date will be an event of default.

ARTICLE VI: PURCHASE AND SALE OF NET ENERGY

6. Delivery and Acceptance of Net Energy - Except when either Party's performance is excused as provided herein, Avista will purchase and Seller will sell all of the Net Energy as defined in section 1.13 of this Agreement and subsequently scheduled and delivered to Avista by the Transmitting Entity(s) on the Seller's behalf to the Point of Delivery. At no time will the total

amount of Net Energy delivered by the Transmitting Entity(s) to the Point of Delivery exceed the Avista Electrical System Allocation.

6.2 Net Energy Amounts - Seller intends to produce and Transmitting Entity(s) shall deliver Net Energy in the following monthly amounts:

6.2. Initial Year Monthly Net Energy Amounts:

	<u>Month</u>	<u>KWh</u>
Season 1	March	7,440,000
	April	7,200,000
	May	7,440,000
Season 2	July	7,440,000
	August	7,440,000
	November	7,200,000
	December	7,440,000
Season 3	June	7,200,000
	September	7,200,000
	October	7,440,000
	January	7,440,000
	February	6,720,000

Ongoing Monthly Net Energy Amounts - Seller shall initially provide Avista with one year of monthly generation estimates (Initial Year Monthly Net Energy Amounts) and beginning at the end of month nine and every three months thereafter provide Avista with an additional three months of forward generation estimates. This information will be provided to Avista by written notice in accordance with paragraph 26.1, no later than 5pm of the 5th day following the end of the previous month. If the Seller does not provide the Ongoing Monthly Net Energy amounts in a timely manner, Avista will use the most recent 3 months of the Initial Year Monthly Net Energy Amounts specified in paragraph 6.2. for the next 3 months of monthly Net Energy amounts.

Seller's Adjustment of Net Energy Amount -

6.2.3.1 No later than the Operation Date, by written notice given to Avista in accordance with paragraph 26.1, the Seller may revise all of the previously provided Initial

Year Monthly Net Energy Amounts.

6.2.3.2 Beginning with the end of the 3rd month after the Operation Date and at the end of every third month thereafter; (1) the Seller may not revise the immediate next three months of previously provided Net Energy Amounts, (2) but by written notice given to Avista in accordance with paragraph 26.1, no later than 5pm of the 5th day following the end of the previous month, the Seller may revise all other previously provided Net Energy Amounts. Failure to provide timely written notice of changed amounts will be deemed to be an election of no change.

6.2.4 Avista Adjustment of Net Energy Amount – If Avista is excused from accepting the Seller's Net Energy as specified in paragraph 13.2.1, Transmitting Entity(s) are excused from scheduling and delivering Net Energy as specified in paragraph 13.2.2, or if the Seller declares a Suspension of Energy Deliveries as specified in paragraph 13.3.1 and the Seller's declared Suspension of Energy Deliveries is accepted by Avista, the Net Energy Amount as specified in paragraph 6.2 for the specific month in which the reduction or suspension under paragraph 13.2.1, 13.2.2 or 13.3.1 occurs will be reduced in accordance with the following:

Where:

NEA = Current Month's Net Energy Amount (Paragraph 6.2)

- a.) If Avista is excused from accepting the Seller's Net Energy as specified in paragraph 13.2.1 or the Transmitting Entity is excused from delivering Net Energy as specified in paragraph 13.2.2 this value will be equal to the percentage of curtailment as specified by Avista multiplied by the TGU as defined below.
- b.) If the Seller declares a Suspension of Energy Deliveries as specified in paragraph 13.3.1 this value will be the sum of the individual generation units size ratings as specified in Appendix B that are impacted by the circumstances causing the Seller to declare a Suspension of Energy Deliveries.

Sum of all of the individual generator ratings of the generation units at this Facility as specified in Appendix B of this agreement.

- RSH** Actual hours the Facility's Net Energy deliveries were either reduced or suspended under paragraph 13.2.1 or 13.3.1
- TH** Actual total hours in the current month

Resulting formula being:

$$\text{Adjusted Net Energy Amount} = \text{NEA} - \left(\left(\frac{\text{SGU}}{\text{TGU}} \times \text{NEA} \right) \times \left(\frac{\text{RSH}}{\text{TH}} \right) \right)$$

This Adjusted Net Energy Amount will be used in applicable Surplus Energy calculations for only the specific month in which Avista was excused from accepting the Seller's Net Energy or the Seller declared a Suspension of Energy.

6.3 Unless excused by an event of Force Majeure, Seller's failure to deliver Net Energy in any Contract Year in an amount equal to at least ten percent (10%) of the sum of the Initial Year Net Energy Amounts as specified in paragraph 6.2 shall constitute an event of default.

ARTICLE VII: PURCHASE PRICE AND METHOD OF PAYMENT

7. Net Energy Purchase Price – For all Net Energy, Avista will pay the non-levelized energy price in accordance with Commission Order 29646 with seasonalization factors applied:

<u>Year</u>	<u>Non-Levelized Rate Mills/kWh</u>	<u>Adjustable Component Mills/kWh</u>
2006	14.65	
2007	14.98	
2008	15.33	
2009	15.68	
2010	16.04	
2011	16.41	
2012	16.79	
2013	17.17	
2014	17.57	
2015	17.98	
2016	18.39	
2017	18.81	
2018	19.25	
2019	19.69	
2020	20.15	
2021	20.61	
2022	21.09	
2023	21.58	
2024	22.07	
2025	22.58	
2026	23.11	
2027	23.64	
2028	24.19	

* *The Adjustable Component shall be calculated.*

7.2 Surplus Energy Price - For all Surplus Energy, Avista shall pay to the Seller the current month's Market Energy Cost or the Net Energy Purchase Price specified in paragraph 7.1, whichever is

lower.

- 7.3 Payment Due Date – Energy payments to the Seller will be disbursed within 25 days of the date which Avista receives acceptable documentation of the monthly Net Energy actually scheduled and delivered to Avista by the Transmitting Entity(s) on the Seller’s behalf as specified in Appendix A.
- 7.4 Continuing Jurisdiction of the Commission – This Agreement is a special contract and, as such, the rates, terms and conditions contained in this Agreement will be construed in accordance with Idaho Power Company v. Idaho Public Utilities Commission and Afton Energy, Inc., 107 Idaho 781, 693 P.2d 427 (1984); Idaho Power Company v. Idaho Public Utilities Commission, 107 Idaho 1122, 695 P.2d 261 (1985); Afton Energy, Inc. v. Idaho Power Company, 111 Idaho 925, 729 P.2d 400 (1986); Section 210 of the Public Utilities Regulatory Policies Act of 1978 and 18 CFR §292.303-308.

ARTICLE VIII: ENVIRONMENTAL ATTRIBUTES

- 8.1 Avista waives any claim to ownership of Environmental Attributes. Environmental Attributes include, but are not limited to, Green Tags, Green Certificates, Renewable Energy Credits (RECs) and Tradable Renewable Certificates (TRCs) directly associated with the production of energy from the Seller’s Facility.

ARTICLE IX: FACILITY AND INTERCONNECTION

- 9.1 Design of Facility - Seller will own the Facility and ensure ongoing operation and maintenance of the Interconnection Facilities so as to allow safe and reliable generation and delivery of Net Energy to the Transmitting Entity(s) for the full term of the Agreement.
- 9.2 Interconnection Facilities - Seller will ensure ownership and maintenance all Interconnection Facilities other than those owned, installed or maintained by the Transmitting Entity(s). Seller will pay all costs of interconnecting with the Transmitting Entity(s) and transmitting Net Energy to Avista, scheduling energy into the Avista system and any other costs associated with

integrating the Seller's Net Energy into the Avista electrical system.

ARTICLE X: TRANSMISSION AGREEMENT

10. Transmission Agreement - The Seller will arrange and pay for the firm delivery of Net Energy over the facilities of Northwestern Energy and AVISTA to the Avista Point(s) of Delivery. The delivery of Net Energy from the Facility to the Avista Point(s) of Delivery shall be in accordance with the terms and conditions of the firm Transmission Agreements between the Seller and NorthWestern Energy and AVISTA, which will include provisions requiring the Transmitting Entities to provide the following:
10. 1 Monthly Scheduled Energy Deliveries – The Transmitting Entities will provide Avista with a schedule of the next month's hourly scheduled Net Energy deliveries, at a minimum of 7 days prior to the beginning of the month. The hourly scheduled Net Energy delivery will be a constant value for every hour of the month and will remain unchanged for all hours of the month. The Transmitting Entities will never schedule or deliver more energy than the amounts designated in paragraph 4. .8 of this Agreement to Avista for the Facility. The Transmitting Entity(s) shall be excused from scheduling Net Energy to Avista if the Seller declares and Avista accepts the Seller's Facility Declaration of Suspension of Energy Deliveries as described in paragraph 13.3 or the Transmitting Entity(s) determines that curtailment, interruption or reduction of Net Energy deliveries is necessary because of line construction, maintenance requirements, emergencies, electrical system operating conditions on its system, or as otherwise required by Prudent Electrical Practices. When reasonable to do so, the Transmitting Entity(s) shall notify Avista of any curtailment, interruption or reduction of the Net Energy deliveries, prior to the curtailment, interruption, or reduction of Net Energy deliveries to the Point(s) of Delivery. This notification will include the estimated duration and reason for the event. In the case of unplanned events, the Transmitting Entity will promptly notify Avista of the estimated duration and reason of the event upon occurrence of the event.

10.1.2 Energy Reserve Requirements – The Transmitting Entity(s) will provide all generation reserves as required by the Western Electricity Coordinating Council (WECC) and/or as required by any other governing agency or industry standard to deliver the Net Energy to the specified Point(s) of Delivery.

10.2 Acceptance of Transmission Agreement - This Agreement is expressly conditioned and contingent upon Avista's acceptance of the Transmission Agreements. Such acceptance will not be unreasonably withheld. Avista will be identified within the Transmission Agreement as an intended third party beneficiary of the Transmission Agreement and a material default by Seller under the Transmission Agreement will be a material default under this Agreement.

10.3 Losses - Avista will only purchase the Net Energy that is scheduled and delivered by the Transmitting Entity(s) to Avista at the Point(s) of Delivery as shown on Avista's daily system logs. Any electrical energy losses between the Seller's Facility and the Avista electrical system will be deducted from the Facility's electrical generation in determining the Net Energy scheduled and delivered to Avista.

Documentation - Seller will provide Avista with monthly documentation in a form acceptable to Avista showing the Points of Delivery, amount of energy scheduled and delivered to Avista.

ARTICLE XI - RECORDS

Maintenance of Records - Seller shall maintain at the Facility or such other location mutually acceptable to the Parties adequate total generation, Net Energy, and Station Use records in a form and content recommended by Avista.

Inspection - Either Party, after reasonable notice to the other Party, shall have the right, during normal business hours, to inspect and audit any or all generation, Net Energy and Station Use records pertaining to the Seller's Facility.

ARTICLE XII - PROTECTION

12. Seller will own the Facility and ensure ongoing operation and maintenance of the Facility and any Interconnection Facilities in accordance with Prudent Electrical Practices, the National Electric Safety Code and any other applicable local, state and federal codes.

ARTICLE XIII - OPERATIONS

Communications - Avista and the Transmitting Entity(s) on behalf of the Seller shall maintain appropriate operating communications through Avista's Designated Dispatch Facility and Seller shall require the Transmitting Entity(s) to report to Avista at the times and in the manner established in the Transmission Agreements described in paragraph 10.1

Energy Acceptance -

- 13.2.1 Avista shall be excused from accepting and paying for Net Energy produced by the Facility and delivered by the Transmitting Entity(s) to the Point(s) of Delivery, if it is prevented from doing so by an event of Force Majeure, or if Avista determines that curtailment, interruption or reduction of Net Energy deliveries is necessary because of line construction or maintenance requirements, emergencies, electrical system operating conditions on its system or as otherwise required by Prudent Electrical Practices provided that during such curtailment, interruption or reduction Avista, the Transmitting Entity(s) and the Seller shall within reasonable limits attempt to coordinate, schedule and deliver Net Energy to the Avista electrical system at other Points of Delivery if Avista is capable of accepting the Net Energy deliveries at other Points of Delivery. The Seller will be responsible for all costs associated with coordinating, scheduling and delivering Net Energy to the Avista electrical system at other Points of Delivery. If, for reasons other than an event of Force Majeure, Avista requires such a curtailment, interruption or reduction of Net Energy deliveries for a period that exceeds twenty (20) days, beginning with the twenty-first day of such interruption, curtailment or reduction, Seller will be deemed to be delivering Net Energy at a rate equivalent to the pro rata daily average of

the amounts specified for the applicable month in paragraph 6.2. Avista will notify Seller when the interruption, curtailment or reduction is terminated.

13.2.2 The Seller and Transmitting Entity(s) shall be excused from scheduling and delivering Net Energy produced by the Facility to the Avista Point(s) of Delivery, if the Transmitting Entity is prevented from scheduling and delivering Net Energy by an event of Force Majeure, or if the Transmitting Entity determines that curtailment, interruption or reduction of Net Energy deliveries is necessary because of line construction or maintenance requirements, emergencies, electrical system operating conditions on its system or as otherwise required by Prudent Electrical Practices provided that during such curtailment, interruption or reduction Avista, the Transmitting Entity(s) and the Seller shall within reasonable limits attempt to coordinate, schedule and deliver Net Energy to the Avista electrical system at other Points of Delivery if Avista is capable of accepting the Net Energy deliveries at other Points of Delivery. The Seller will be responsible for all costs associated with coordinating, scheduling and delivering Net Energy to the Avista electrical system at other Points of Delivery.

13.2.3 Under no circumstances will the Transmitting Entity(s) schedule and/or deliver Net Energy on behalf of the Seller to the Point(s) of Delivery in an amount that exceeds the energy amounts designated in paragraph 4. .8. Either the Transmitting Entity(s)' or Seller's failure to limit scheduling and/or deliveries of Net Energy to the Point of Delivery to these amounts will be a Material Breach of this Agreement.

13.3 Seller Declared Suspension of Energy Deliveries

13.3.1 If the Seller's Facility experiences a forced outage due to equipment failure which is not caused by an event of Force Majeure or by neglect, disrepair or lack of adequate preventative maintenance of the Seller's Facility, Seller may, after giving notice as provided in paragraph 13.3.2 below, temporarily suspend all deliveries of Net Energy to Avista from the Facility or from individual generation unit(s) at the Facility impacted by the forced outage for a period of not less than 48 hours to correct the forced outage

condition ("Declared Suspension of Energy Deliveries"). The Seller's Declared Suspension of Energy Deliveries will begin at the start of the next full hour following the Seller's telephone notification as specified in paragraph 13.3.2 and will continue for the time as specified (not less than 48 hours) in the written notification provided by the Seller. In the month(s) in which the Declared Suspension of Energy occurred, the Net Energy Amount will be adjusted as specified in paragraph 6.2.4.

13.3.2 If the Seller desires to initiate a Declared Suspension of Energy Deliveries as provided in paragraph 13.3.1, the Seller will notify the Designated Dispatch Facility by telephone. The beginning hour of the Declared Suspension of Energy Deliveries will be at the earliest the next full hour after making telephone contact with Avista. The Seller will, within 24 hours after the telephone contact, provide Avista a written notice in accordance with Article XXVI that will contain the beginning hour and duration of the Declared Suspension of Energy Deliveries and a description of the conditions that caused the Seller to initiate a Declared Suspension of Energy Deliveries. Avista will review the documentation provided by the Seller to determine Avista's acceptance of the described forced outage as qualifying for a Declared Suspension of Energy Deliveries as specified in paragraph 13.3. Avista's acceptance of the Seller's forced outage as an acceptable forced outage will be based upon the clear documentation provided by the Seller that the forced outage is not due to an event of Force Majeure or by neglect, disrepair or lack of adequate preventative maintenance of the Seller's Facility.

ARTICLE XIV: INDEMNIFICATION AND INSURANCE

4. Indemnification - Each Party shall agree to hold harmless and to indemnify the other Party, its officers, agents, affiliates, subsidiaries, parent company and employees against all loss, damage, expense and liability to third persons for injury to or death of person or injury to property, proximately caused by the indemnifying Party's construction, ownership, lease, operation or maintenance of, or by failure of, any of such Party's works or facilities used in connection with

this Agreement. The indemnifying Party shall, on the other Party's request, defend any suit asserting a claim covered by this indemnity. The indemnifying Party shall pay all costs, including reasonable attorney fees that may be incurred by the other Party in enforcing this indemnity.

14.2 Insurance - During the term of this Agreement, Seller shall secure and continuously carry the following insurance coverage:

14.2.1 Comprehensive General Liability Insurance for both bodily injury and property damage with limits equal to \$1,000,000, each occurrence, combined single limit. The deductible for such insurance shall be consistent with current Insurance Industry Utility practices for similar property.

14.2.2 The above insurance coverage shall be placed with an insurance company with an A.M. Best Company rating of A- or better and shall include:

- (a) An endorsement naming Avista as an additional insured and loss payee as applicable; and
- (b) A provision stating that such policy shall not be canceled or the limits of liability reduced without sixty (60) days' prior written notice to Avista.

Seller to Provide Certificate of Insurance - As required in paragraph 4.1.5 herein and annually thereafter, Seller shall furnish Avista a certificate of insurance, together with the endorsements required therein, evidencing the coverage as set forth above.

Seller to Notify Avista of Loss of Coverage - If the insurance coverage required by paragraph 4.2 shall lapse for any reason, Seller will immediately notify Avista in writing. The notice will advise Avista of the specific reason for the lapse and the steps Seller is taking to reinstate the coverage. Failure to provide this notice and to expeditiously reinstate or replace the coverage will constitute a Material Breach of this Agreement.

ARTICLE XV. FORCE MAJEURE

15. As used in this Agreement, "Force Majeure" or "an event of Force Majeure" means any cause beyond the control of the Seller, Transmitting Entity(s) or of Avista which, despite the exercise of

due diligence, such Party is unable to prevent or overcome. Force Majeure includes, but is not limited to, acts of God, fire, flood, storms, wars, hostilities, civil strife, strikes and other labor disturbances, earthquakes, fires, lightning, epidemics, sabotage, or changes in law or regulation occurring after the Operation Date, which, by the exercise of reasonable foresight such party could not reasonably have been expected to avoid and by the exercise of due diligence, it shall be unable to overcome. If either Party is rendered wholly or in part unable to perform its obligations under this Agreement because of an event of Force Majeure, both Parties shall be excused from whatever performance is affected by the event of Force Majeure, provided that:

- (1) The non-performing Party shall, as soon as is reasonably possible after the occurrence of the Force Majeure, give the other Party written notice describing the particulars of the occurrence.
- (2) The suspension of performance shall be of no greater scope and of no longer duration than is required by the event of Force Majeure.
- (3) No obligations of either Party which arose before the occurrence causing the suspension of performance and which could and should have been fully performed before such occurrence shall be excused as a result of such occurrence.

ARTICLE XVI: LIABILITY; DEDICATION

16. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any person not a Party to this Agreement. No undertaking by one Party to the other under any provision of this Agreement shall constitute the dedication of that Party's system or any portion thereof to the other Party or to the public or affect the status of Avista as an independent public utility corporation or Seller as an independent individual or entity.

ARTICLE XVII: SEVERAL OBLIGATIONS

17. Except where specifically stated in this Agreement to be otherwise, the duties, obligations and liabilities of the Parties are intended to be several and not joint or collective. Nothing contained in this Agreement shall ever be construed to create an association, trust, partnership or joint venture or impose a trust or partnership duty, obligation or liability on or with regard to either Party. Each Party shall be individually and severally liable for its own obligations under this Agreement.

ARTICLE XVIII: WAIVER

Any waiver at any time by either Party of its rights with respect to a default under this Agreement or with respect to any other matters arising in connection with this Agreement shall not be deemed a waiver with respect to any subsequent default or other matter.

ARTICLE XIX: CHOICE OF LAWS AND VENUE

This Agreement shall be construed and interpreted in accordance with the laws of the State of Idaho without reference to its choice of law provisions.

Venue for any litigation arising out of or related to this Agreement will lie in the District Court of the Fourth Judicial District of Idaho in and for the County of Ada.

ARTICLE XX: DISPUTES AND DEFAULT

20. Disputes - All disputes related to or arising under this Agreement, including, but not limited to, the interpretation of the terms and conditions of this Agreement, will be submitted to the Commission for resolution.

Notice of Default -

- 20.2.1 Defaults. If either Party fails to perform any of the terms or conditions of this Agreement (an "event of default"), the nondefaulting Party shall cause notice in writing to be given to the defaulting Party, specifying the manner in which such

default occurred. If the defaulting Party shall fail to cure such default within the sixty (60) days after service of such notice, or if the defaulting Party reasonably demonstrates to the other Party that the default can be cured within a commercially reasonable time but not within such sixty (60) day period and then fails to diligently pursue such cure, then, the nondefaulting Party may, at its option, terminate this Agreement and/or pursue its legal or equitable remedies.

20.2.2 Material Breaches – The notice and cure provisions in paragraph 20.2.1 do not apply to defaults identified in this Agreement as Material Breaches. Material Breaches must be cured as expeditiously as possible following occurrence of the breach.

20.3 Security for Performance - Prior to the Operation Date and thereafter for the full term of this Agreement, Seller will provide Avista with the following:

20.3.1 Insurance - Evidence of compliance with the provisions of paragraph 14.2. If Seller fails to comply, such failure will be a Material Breach and may only be cured by Seller supplying evidence that the required insurance coverage has been replaced or reinstated;

20.3.2 Engineer's Certifications - Every three (3) years after the Operation Date, Seller will supply Avista with a Certification of Ongoing Operations and Maintenance (O & M) from a Registered Professional Engineer licensed in the State of Idaho, which Certification of Ongoing O & M shall be in the form specified in Appendix C. Seller's failure to supply the required certificate will be an event of default. Such a default may only be cured by Seller providing the required certificate; and

20.3.3 Licenses and Permits - During the full term of this Agreement, Seller shall maintain compliance with all permits and licenses described in paragraph 4.1.1 of this Agreement. In addition, Seller will supply Avista with copies of any new or additional permits or licenses. At least every fifth Contract Year, Seller will update the documentation described in Paragraph 4. If at any time Seller fails to maintain compliance with the permits and licenses described in paragraph 4.1 or to provide

the documentation required by this paragraph, such failure will be an event of default and may only be cured by Seller submitting to Avista evidence of compliance from the permitting agency.

ARTICLE XXI: GOVERNMENTAL AUTHORIZATION

This Agreement is subject to the jurisdiction of those governmental agencies having control over either Party of this Agreement.

ARTICLE XXII: COMMISSION ORDER

This Agreement shall become finally effective upon the Commission's approval of all terms and provisions hereof without change or condition and declaration that all payments to be made to Seller hereunder shall be allowed as prudently incurred expenses for ratemaking purposes.

ARTICLE XXIII: SUCCESSORS AND ASSIGNS

This Agreement and all of the terms and provisions hereof shall be binding upon and inure to the benefit of the respective successors and assigns of the Parties hereto, except that no assignment hereof by either Party shall become effective without the written consent of both Parties being first obtained. Such consent shall not be unreasonably withheld. Notwithstanding the foregoing, any party which Avista may consolidate, or into which it may merge, or to which it may convey or transfer substantially all of its electric utility assets, shall automatically, without further act, and without need of consent or approval by the Seller, succeed to all of Avista's rights, obligations and interests under this Agreement. This article shall not prevent a financing entity with recorded or secured rights from exercising all rights and remedies available to it under law or contract. Avista shall have the right to be notified by the financing entity that it is exercising such rights or remedies.

ARTICLE XXIV: MODIFICATION

No modification to this Agreement shall be valid unless it is in writing and signed by both Parties and subsequently approved by the Commission.

ARTICLE XXV: TAXES

Each Party shall pay before delinquency all taxes and other governmental charges which, if failed to be paid when due, could result in a lien upon the Facility or the Interconnection Facilities.

ARTICLE XXVI: NOTICES

All written notices under this agreement shall be directed as follows and shall be considered delivered when deposited in the U. S. Mail, first-class postage prepaid, as follows:

To Seller: Manager
 Thompson River Co-Gen, LLC
 1610 Wynkoop, Suite 100
 Denver, CO 80202

To Avista:

Original document to:

Vice President, Power Supply
Avista Corp
1411 East Mission
Spokane, WA 99220

Copy of document to:

Cogeneration and Small Power Production
Avista Corp
P O Box 3727
Spokane, WA 99220

ARTICLE XXVII: ADDITIONAL TERMS AND CONDITIONS

This Agreement includes the following appendices, which are attached hereto and included by reference:

Appendix A
Appendix B

Generation Scheduling and Reporting
Facility and Point of Delivery

ARTICLE XXVIII: SEVERABILITY

28. The invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of any other terms or provisions and this Agreement shall be construed in all other respects as if the invalid or unenforceable term or provision were omitted.

ARTICLE XXIX: COUNTERPARTS

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

ARTICLE XXX: ENTIRE AGREEMENT

- 30.1 This Agreement constitutes the entire Agreement of the Parties concerning the subject matter hereof and supersedes all prior or contemporaneous oral or written agreements between the Parties concerning the subject matter hereof.

IN WITNESS WHEREOF, The Parties hereto have caused this Agreement to be executed
in their respective names on the dates set forth below:

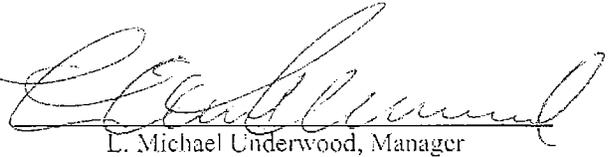
AVISTA CORP

Thompson River Co-Gen, LLC.

By

By

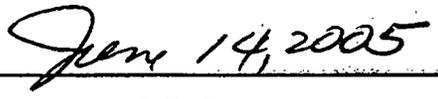
N. Vern Porter – Mgr Power Supply Operations


L. Michael Underwood, Manager

Dated

Dated

"Avista "



"Seller"

APPENDIX A

A -1 MONTHLY POWER PRODUCTION AND SWITCHING REPORT

At the end of each month, the Seller will provide Avista with monthly documentation acceptable to Avista showing the Point(s) of Delivery and the amount of energy actually scheduled and delivered to Avista by the Transmitting Entity(s). In accordance with paragraph 10.4, such documentation, subject to subsequent review by Avista, will be the basis of payment for energy purchased by Avista from the Seller.

Submit this documentation to:

Avista Corp
Attn: Cogeneration and Small Power Production
P O Box 3727
Spokane, WA 99220

Seller's Contact Information

Project Contact

Name: Michael Underwood
Telephone Number: 303-534-1119

Project On-site 24-Hour Project Operational Contact information

Plant Manager: Curt Boydston
Telephone Number: 406-827-9690
249 Airport Road Thompson Falls, MT 59873

APPENDIX B

FACILITY AND POINT OF DELIVERY

PROJECT NO.

THOMPSON RIVER Co-GEN PROJECT

B-1 DESCRIPTION OF FACILITY

Thompson River Co-Gen Facility –

Thompson River Co-Gen (“TRC”) is a coal and biomass cogeneration facility located approximately four miles outside of Thompson Falls, Montana (on Highway 200). The Project design is impacted by the wood fuel input and steam energy output thus, the net electric generation is boiler limited. Specifically, the Facility consists of Babcock & Wilcox 130,000 lbs/hr @850 PSIG, 900° boiler, with a reconditioned 16.5 megawatt (“MW”) Elliot condensing steam turbine (13,500 heat rate). Fuel is provided and managed with a Detroit Stoker 4-feeder moving grate system. The Facility is controlled with the Allen Bradley controls and PLC by CPL Systems, Inc. The Marley Sigma five cell cooling tower and Anderson 2000 scrubber maintain control emissions and cooling for the Facility. The Facility is interconnected to NorthWestern through the GE 13.2 to 115 KV step-up transformer with dual breakers.

B-2 LOCATION OF FACILITY

The SW1/4 of the NW1/4 of the NE1/4 of Section 13, Township 21, Range 29 West, in Sanders County, Montana. The approximate universal transverse mercator (UTM) coordinates are Zone 11, Easting 631.6 kilometers (km), and Northing 5270.6 km.

B-3 SCHEDULED OPERATION DATE

Seller has selected January 1, 2006 as the Scheduled Operation Date.

B-4 MAXIMUM DELIVERED CAPACITY AMOUNT: 10 MW

B-5 POINT OF DELIVERY

“Point of Delivery” means, unless otherwise agreed by both Parties, the point on the Avista electrical system where the Transmitting Entity(s) schedule and deliver energy to Avista. The Point of Delivery will be the point known as BURKE.

APPENDIX C

ENGINEER'S CERTIFICATION

OF

OPERATIONS & MAINTENANCE POLICY

The undersigned _____ on behalf of himself and
hereinafter collectively referred to as "Engineer,"

hereby states and certifies to the Seller as follows:

- That Engineer is a Licensed Professional Engineer in good standing in the State of Montana.
2. That Engineer has reviewed the Energy Sales Agreement, hereinafter "Agreement," between Avista as Buyer, and _____, as Seller, dated _____
3. That the cogeneration or small power production project which is the subject of the Agreement and this Statement is identified as IPCo Facility No. _____ and is hereinafter referred to as the "Project."
4. That the Project, which is commonly known as the Thompson River Co-Gen Project, is located in Section 13, Township 21, Range 29 West, Sanders County, Montana.
5. That Engineer recognizes that the Agreement provides for the Project to furnish electrical energy to Avista for a twenty (20) year period.
6. That Engineer has substantial experience in the design, construction and operation of electric power plants of the same type as this Project.
7. That Engineer has no economic relationship to the Design Engineer of this Project.
8. That Engineer has reviewed and/or supervised the review of the Policy for Operation and Maintenance ("O&M") for this Project and it is his professional opinion that, provided said Project has been designed and built to appropriate standards, adherence to said O&M Policy will result in the Project's producing at or near the design electrical output, efficiency and plant factor for a twenty (20) year period.

9. That Engineer recognizes that Avista, in accordance with paragraph 5.2 of the Agreement, is relying on Engineer's representations and opinions contained in this Statement.

10. That Engineer certifies that the above statements are complete, true and accurate to the best of his knowledge and therefore sets his hand and seal below.

By _____

(P.E. Stamp)

Date _____

APPENDIX C

ENGINEER'S CERTIFICATION

OF

ONGOING OPERATIONS AND MAINTENANCE

The undersigned _____, on behalf of himself and _____ hereinafter collectively referred to as "Engineer," hereby states and certifies to the Seller as follows:

- That Engineer is a Licensed Professional Engineer in good standing in the State of Montana.
2. That Engineer has reviewed the Energy Sales Agreement, hereinafter "Agreement," between Avista as Buyer, and _____, as Seller, dated _____
 3. That the cogeneration or small power production project which is the subject of the Agreement and this Statement is identified as IPCo Facility No. _____ and hereinafter referred to as the "Project".
 4. That the Project, which is commonly known as the Thompson River Co-Gen Project, is located in Section 13, Township 21, Range 29 West, Sanders County, Montana.
 5. That Engineer recognizes that the Agreement provides for the Project to furnish electrical energy to Avista for a twenty (20) year period.
 6. That Engineer has substantial experience in the design, construction and operation of electric power plants of the same type as this Project.
 7. That Engineer has no economic relationship to the Design Engineer of this Project.
 8. That Engineer has made a physical inspection of said Project, its operations and maintenance records since the last previous certified inspection. It is Engineer's professional opinion, based on the Project's appearance, that its ongoing O&M has been substantially in accordance with said O&M Policy; that it is in reasonably good operating condition; and that if adherence to said O&M Policy continues, the Project will continue producing at or near its design electrical output, efficiency and plant factor for the remaining _____ years of the Agreement.

9. That Engineer recognizes that Avista , in accordance with paragraph 5.2 of the Agreement, is relying on Engineer's representations and opinions contained in this Statement.

10. That Engineer certifies that the above statements are complete, true and accurate to the best of his knowledge and therefore sets his hand and seal below.

By _____

(P.E. Stamp)

Date _____

APPENDIX C
ENGINEER'S CERTIFICATION
OF
DESIGN & CONSTRUCTION ADEQUACY

The undersigned _____ on behalf of himself and _____, hereinafter collectively referred to as "Engineer", hereby states and certifies to Avista as follows:

That Engineer is a Licensed Professional Engineer in good standing in the State of Montana.

2. That Engineer has reviewed the Firm Energy Sales Agreement, hereinafter "Agreement", between Avista as Buyer, and _____ as Seller, dated _____

3. That the cogeneration or small power production project which is the subject of the Agreement and this Statement is identified as IPCo Facility No _____ and is hereinafter referred to as the "Project".

4. That the Project, which is commonly known as the Thompson River Co-Gen Project, is located in Section 13, Township 21, Range 29 West, Sanders County, Montana.

5. That Engineer recognizes that the Agreement provides for the Project to furnish electrical energy to Avista for a _____ year period.

6. That Engineer has substantial experience in the design, construction and operation of electric power plants of the same type as this Project.

7. That Engineer has no economic relationship to the Design Engineer of this Project and has made the analysis of the plans and specifications independently.

8. That Engineer has reviewed the engineering design of the Project, including the civil work, electrical work, generating equipment, prime mover conveyance system, Seller furnished Interconnection Facilities and other Project facilities and equipment.

9. That the Project has been constructed in accordance with said plans and specifications, all applicable codes and consistent with Prudent Electrical Practices as that term is described in the Agreement.

10. That the design of the Project is such that with reasonable and prudent operation and maintenance practices by Seller, the Project is capable of performing in accordance with the terms of the Agreement and with Prudent Electrical Practices for a () year period.

11. That Engineer recognizes that Avista, in accordance with paragraph 5.3(2) of the Agreement, in interconnecting the Project with its system, is relying on Engineer's representations and opinions contained in this Statement.

12. That Engineer certifies that the above statements are complete, true and accurate to the best of his knowledge and therefore sets his hand and seal below.

By _____
(P.E. Stamp)

Date _____

SECRET

THOMPSON RIVER CO-GEN, LLC

285 2ND AVENUE WN · KALISPELL, MT 59901
TELEPHONE (406) 257-7551 · FACSIMILE (406) 257-7578

March 11, 2005

Avista Corp.
Mr. David Miller, Wholesale Power Manager
1411 East Mission
Spokane, WA 99220

RE: Thompson River Co-Gen, LLC Request for PURPA Contract

Dear Mr. Miller:

I represent and maintain ownership interest in a small wood-waste / coal fired base-load co-generation facility, Thompson River Co-Gen (TRC) located in Thompson Falls, Montana, approximately 100 miles southwest of Kalispell. TRC is providing this introduction to Avista Corp. to respectfully request a twenty-year qualifying facilities contract under the approved Idaho PUC rate for "Avoided Cost Rates for Fueled Projects Smaller than Ten Megawatts". As previously communicated by NorthWestern Energy ("NorthWestern"), we will ensure firm energy and transmission schedule of 10 MW to the NorthWestern / Avista interconnection at Burke.

The Project is fully constructed and interconnected to NorthWestern's 115 KV system and has began providing test energy to the grid for the last sixty days as final controls and boiler modifications are performed. The Project provides steam to the adjacent Thompson River Lumber Company of Montana. The project will be classified commercial within the next few weeks and TRC is completing its PURPA certification filing with FERC. The project maintains all required permits to burn coal or waste wood and as such, arranged a 20-year coal supply.

I believe that NorthWestern has confirmed the communications with TRC to provide firming services for the Project, which will result in a firm, flat schedule on firm transmission to Burke. The structure will be similar to the services provided for Tiber Montana (a 7 MW hydro facility located north of Great Falls, MT) and delivered to Idaho Power under a QF contract, which has been approved by the IPUC.

In connection with this request, TRC will provide to Avista a complete Project description, Project ownership and operation material, an Independent Engineering review of the Project, and a sample transmission agreement with NorthWestern. TRC appreciates your consideration and looks forward to further meeting with you and your team regarding this issue. Please contact me at your earliest convenience in order to discuss this opportunity further.

Sincerely,



Michael Underwood
Principal, Thompson River Co-Gen, LLC