

REDACTED

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-12 _____

DOCKET NO. UG-12 _____

EXHIBIT NO. ____ (KSF-2)

KAREN S. FELTES

REPRESENTING AVISTA CORPORATION

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February 28, 2012

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Attention: Mr. David Danner, Executive Director & Secretary

RE: **Compliance Filing** - Avista Corporation - Dockets UE-110876 & UG-110877 (consolidated)

In its Order No. 06 in the above referenced dockets, at paragraph 42, the Commission stated:

Accordingly, we order the Company to file with the Commission in this proceeding by February 29, 2012, the following information:

A description of current executive compensation, including but not limited to base salary, non-equity incentive pay, and incentive pay. This description should state what elements and amounts are included in rates for the Company and what elements and amounts are not recovered through rates.

A description of how levels of executive compensation are set. This description should include discussion of the basis for selecting ostensibly comparable utilities that were surveyed, state what those survey results showed, and explain how the results relate to Avista. Avista is also required to state whether executive compensation paid by any Pacific Northwest investor-owned (e.g., Puget Sound Energy, PacifiCorp, et cetera) or publicly-owned utilities (e.g., Seattle City Light, Tacoma Power, Public Utility District No. 1 of Snohomish County, and the Bonneville Power Administration) were considered and, if not, explain why not.

A discussion of Avista's perspective on whether and, if so, why, the existing levels of executive compensation are appropriate for recovery in utility rates.

Attached for filing with the Commission are the requested descriptions and a discussion of the Company's executive compensation in compliance with the Commission's Order No. 06, at paragraph 42, in the above referenced dockets.

The report and exhibits, has CONFIDENTIAL information, which is protected per Protective Order in WUTC Dockets UE-110876 and UG-110877 and by WAC 480-07-160.

Please direct any questions on this matter to Liz Andrews at 509.495.8601.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Norwood".

Kelly Norwood
Vice President, State & Federal Regulation

Enclosures
cc: Service list

Review of Executive Officer Compensation

February 28, 2012

**Provided Pursuant to Order No. 06
Dockets UE-110876 & UG-110877**



Background

This report is being provided pursuant to the Washington Utilities and Transportation Commission Order No. 6 in Dockets UE-110876 & UG-110877.

Avista is to provide the following information per Order No. 6, Paragraph 42:

- A description of current executive compensation, including but not limited to, base salary, non-equity incentive compensation, and incentive compensation. This description should state what elements and amounts are included in rates for the Company and what elements and amounts are not recovered through rates.
- A description of how levels of compensation are set. This description should include discussion of the basis for selecting ostensibly comparable utilities that were surveyed, state what those survey results showed, and explain how the results relate to Avista. Avista is also required to state whether executive compensation paid by any Pacific Northwest investor-owned (e.g., Puget Sound Energy, PacifiCorp, et cetera) or publicly-owned utilities (e.g., Seattle City Light, Tacoma Power, Public Utility District No. 1 of Snohomish County, and the Bonneville Power Administration) were considered and if not, explain why not
- An explanation of why the existing levels of executive compensation are appropriate for recovery in utility rates.

Issues Addressed

1. Executive Officer Compensation Description

A description of executive officer compensation, including what elements and amounts are included in customer rates versus amounts which are excluded from customer rates.

2. Setting of Executive Officer Compensation Levels

A description of how levels of compensation are set, including the basis for selecting comparable utilities that were surveyed, what those survey results showed, and how the results relate to Avista. Additional information is included, as requested, on whether executive officer compensation paid by any Pacific Northwest investor-owned or publicly-owned utilities were considered comparable and if not, why not.

3. Appropriate Level of Executive Officer Compensation in Rates

An explanation of why the existing levels of executive officer compensation is appropriate for recovery in rates.

Attachments:

- A. Avista Corporation Notice of 2012 Annual Meeting and Proxy Statement
- B. 2011 Executive Officer Short Term Incentive Plan for 2011
- C. Confidential - Total Utility Executive Officer Base Salary and Incentive Amounts in Rates
- D. Avista Corporation Executive Officer Long Term Incentive Plan
- E. 2011 Employee Benefit Summary
- F. Confidential - Total Executive Officer Base Pay Summary
- G. Confidential - Towers Watson Total Direct Compensation Review

1. Executive Officer Compensation Description

Executive officer compensation is comprised of the following components:

- Base Salary
- Short Term Incentive Plan (STIP)
- Long Term Incentive Plan (LTIP)
- Benefits Package

A summary of total executive compensation is provided in Illustration 1 below.¹ The compensation components for 2011 for each of the top five officers, reported in the proxy report to shareholders, are shown separately in the table, and the total salary and incentive pay for the remaining officers are shown on Line 8 of the table. The total salary and incentives for all officers is shown on Line 9. The amount of the total compensation that is currently included in retail rates is shown on Lines 10 through 12.

Illustration 1 (in thousands)

	A	B	C	D	E	F	G	H
1	Officer	Base Pay	STIP	LTIP	Base Pay, STIP & LTIP	Pension/Deferred Comp ²	Other ³	Total Compensation
2	Chairman of the Board, President and CEO	\$662	\$537	\$1,356	\$2,555	\$890	\$49	\$3,494
3	Sr. Vice President & CFO	\$341	\$185	\$331	\$857	\$77	\$11	\$945
4	Sr. Vice President and Environmental Compliance Officer, Utility President	\$304	\$164	\$331	\$799	\$301	\$13	\$1,113
5	Sr. Vice President, General Counsel & Chief Compliance Officer	\$289	\$156	\$331	\$776	\$124	\$11	\$911
6	Sr. Vice President and Corporate Secretary	\$254	\$137	\$373	\$764	\$187	\$11	\$962
7	Executive Officer Compensation	\$1,850	\$1,179	\$2,722	\$5,751	\$1,579	\$95	\$7,425
8	Other Officers	\$1,823	\$657	\$1,273	\$3,753			
9	Total 2011 Officer Salary & Incentives	\$3,673	\$1,836	\$3,995	\$9,504			
10	Salary and Incentives in Rates (System) 1/1/2012	\$3,357	\$588	\$0	\$3,945			
11	WA Electric Portion	\$1,601	\$276	\$0	\$1,877			
12	WA Gas Portion	\$452	\$77	\$0	\$529			

¹ The information in this table for the top five officers is based on information shown in the 2012 Proxy Statement, plus salaries and incentives for the remaining officers. This table excludes company benefits such as pension, medical, etc. See Attachment F for further information.

² Represents the change in pension amounts between 12/31/10 and 12/31/11 at net present value. The increase in the value of pension benefits is due to one additional year of service, higher final average earnings, the passage of time, and changes in interest and mortality assumptions for calculating present values. The costs detailed in this column are not included in rates. What is included in rates is the Non-SERP annual pension expense. Deferred Compensation is not included in rates.

³ Represents the employer matching contributions under the Executive Deferred Compensation Plan. The Investment and Stock Option Plan 401(k) plan and executive one leave cash outs.

The table shows that of the total officer salaries and incentives shown on Line 9, Column E approximately 42% of that amount is included in retail rates for customers in Washington, Idaho and Oregon. Approximately 25% of Line 9, Column E amount is included in Washington retail rates.⁴ The remaining salaries and incentives are not charged to customers through retail rates. The majority of base salary is included in retail rates, and the remainder is allocated to non-utility (subsidiary) operations. A portion of the STIP is included in retail rates, and the majority is paid by shareholders. None of the LTIP is included in rates; 100% is paid by shareholders. Additional details are provided in Confidential Attachment C.

A description of each of the compensation components is provided below. In addition, pages 27-34 of the Avista Notice of 2012 Annual Meeting and Proxy Statement filed with the SEC February 29, 2012 (Attachment A), provides a detailed explanation of Avista's executive officer compensation.

Base Salary

Annual base salaries are provided for services rendered during the year. As an executive's level of responsibility within the Company increases, so does the percentage of total compensation that is linked to performance. For example, Illustration 2 below shows that 25% of the total salary and incentives of the CEO is provided in Base Salary, with the remainder of the compensation at risk through incentive compensation. By comparison, officers other than the Top 5, receive 48% of their total salaries and incentives through Base Salary. What this means is customers are paying for a lower proportion of total compensation for the Top 5 officers.

Illustration 2

Name	Base Salary	Annual Cash Incentive	Long-Term Equity Award
CEO	25%	23%	52%
Top 5 Executive Officers (excluding CEO)	36%	22%	42%
All Other Officers	48%	19%	33%

Source: 2012 Proxy Statement, Page 30 (Attachment A)

Base salary ranges for executive officers are determined according to position and responsibility by using market data provided by the Company's independent executive compensation consultant, Towers Watson⁵. See Section 2, "Setting of Executive Officer Compensation Levels" for additional information on how levels of executive officer compensation are set.

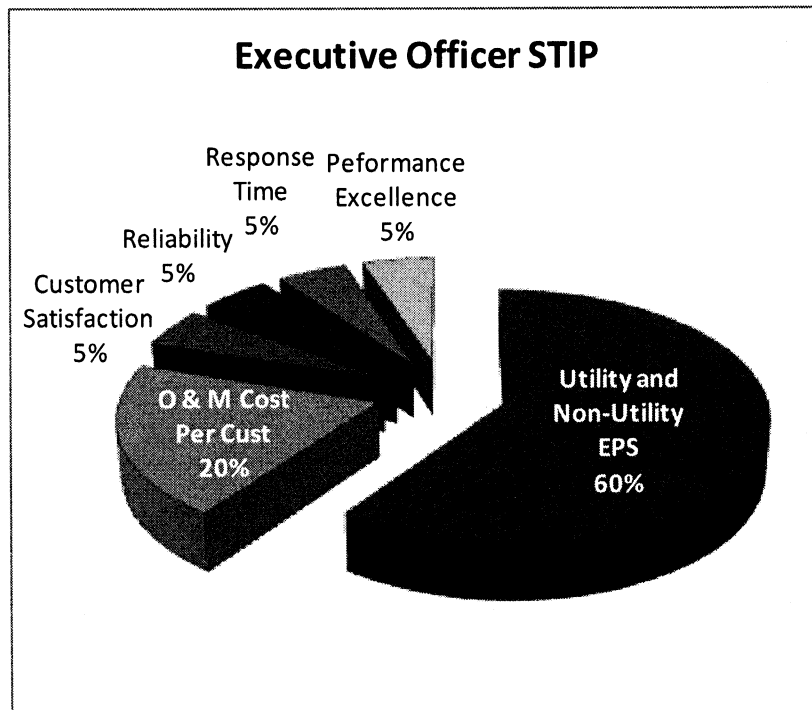
Executive Officer Short Term Incentive Plan (STIP)

⁴ Represents amount of base salary and short term incentive amounts included in base rates as of 1/1/2012.

⁵ Towers Watson is a leading global professional services company that helps organizations assess compensation levels in light of competitive benchmarks. Towers Watson is a nationally recognized independent provider of executive compensation advisory services, with no legal or financial connection with any other service provider. Towers Watson does not perform any work for the Company outside of its role as consultant to the Compensation Committee.

The 2011 Executive Officer Short Term Incentive Plan (STIP) was designed to align the interests of senior management with both shareholder and customer interests. The STIP has five operational components, plus two earnings-per-share (EPS) components, as shown in Illustration 3.

Illustration 3



The total amount associated with utility operational components is 40% and is broken down as follows: 20% O&M Cost Per Customer, 5% Customer Satisfaction, 5% Reliability, 5% Response Time and 5% Performance Excellence. The earnings-per-share components account for 60% of the total opportunity and are broken out into 50% utility earnings-per-share and 10% non-utility earnings-per-share. Only the operational components (40%) are proposed to be included in retail rates, because they reflect measures that are designed to drive cost-control, and delivery of safe, reliable service with a high level of customer satisfaction. The utility and non-utility earnings components are excluded from rates. For additional information on the STIP, see Attachment B.

Operations Components

The utility operational goal components in the 2011 Executive Officer Short Term Incentive Plan (Non-Equity) were as follows:

1. **O & M Cost per Customer (20% of STIP):**

This measure provides an incentive to keep actual O&M costs as low as possible. The 2011 STIP placed emphasis on aggregate utility costs per customer to encourage company-wide teamwork and consistent results in order to keep costs reasonable. The O&M Cost per Customer target is based on the projected number of customers, targeted O&M expense and a

savings mechanism between employees and the Company. There is no payment under this portion of the plan if the minimum performance level is not achieved

2. Customer Satisfaction (5% of STIP):

The customer satisfaction rating measures overall customer satisfaction with the service they received during recent contact with the Company. The rating is derived from a “Voice of the Customer Survey”, which is conducted each quarter by an independent agency. The measure is widely used in the industry for external reporting. The Company uses a combination of the “satisfied” and “very satisfied” ratings, rather than use the standard “satisfied” rating, which is typically used in the industry. By combining these two measures it actually makes the target more difficult to achieve. This element of the plan is set as a “meets” or not meets target. There is no payment under this portion of the plan if the target is not achieved.

3. Reliability Measure (5% of STIP):

Providing reliable service levels for our customers is also important. This target in the STIP is a measure that tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers are experiencing more than three sustained outages per year. We combined three common industry indices in order to balance our focus of electric reliability. The Company tracks the average restoration time for sustained outages that affect our customers (CAIDI) and the average number of sustained outages per customer (SAIFI). The third metric is fairly new to the utility industry and measures the percentage of customers that experience more than three sustained outages in the year (CEMI³). We chose this level of outages over others because industry data received from JD Power’s customer service surveys indicate that customers are more apt to be dissatisfied after three outages. Each metric has a set target to achieve and then are weighted equally (one-third of 100%) and combined into one index. Focusing on these measurements enables the Company to direct our resources appropriately and efficiently in order to contain costs and plan for future infrastructure upgrades that will benefit the customer. There is no payment under this portion of the plan if the target is not achieved.

4. Response Time (5% of STIP):

This metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. The Company tracks the time between the receipt of the call to the time our crew or serviceman arrives on-site, assesses the situation and reports back to dispatch. The Company tracks two types of emergency calls: priority 1 (blowing gas, explosions and/or fires, etc) and priority 2 (inside or outside odors, runaway furnaces, etc). The primary objective is customer and public safety while consistently treating customers the same throughout our service territory. There is no payment under this portion of the plan if the target is not achieved.

5. Performance Excellence (5% of STIP):

This metric combined two separate measures into one. By the end of the year, the objective was to implement or complete 92 project milestones and through process improvements achieve

\$6.2 million in value to redeploy where needed⁶. The metric demonstrates the Company's commitment to continuously look for opportunities for efficiencies in order to keep costs reasonable for our customers in the long term. There is no payment under this portion of the plan if the target is not achieved.

The utility operational component metrics and allocations have varied over time and payouts associated with such components borne by customers and included in rates (which will be addressed later) have also varied over time.

Earnings-Per-Share Components

The Utility and Non-Utility EPS components of the STIP are summarized below:

1. **Utility Earnings Per Share (EPS) (50%):**

This award will depend on attaining EPS goals for the utility operations. The actual amount paid, related to the utility EPS target, could increase (up to 150% of the utility EPS target award) or decrease (as low as 0% of the utility EPS target award) depending on the Company's actual performance.

2. **Non-Utility Earnings Per Share (EPS) (10%):**

This award will depend on attaining EPS goals for non-utility operations. The actual amount paid, related to the non-utility EPS target, could increase (up to 150% of non-utility EPS target award) or decrease (as low as 0% of the non-utility EPS target award) depending on the Company's actual performance.

For information on all executive short term payouts for 2011 (paid in 2012) included in retail rates, see Confidential Attachment C - Total Utility Executive Officer Base Salary and Incentive Amounts in Rates.

Executive Officer Long Term Incentive Plan (LTIP)

The current Long Term Incentive Plan (LTIP) awards are based on 25% restricted common stock units and 75% through performance based common stock equity awards. As with all the components of executive officer compensation, the Compensation Committee determines all material aspects of the long-term incentive reward – who receives the reward, the amount of the reward, the timing of the award as well as any other aspect of the award that may be deemed material. A summary of the components of the LTIP is provided below.

1. **Restricted Stock (25% of LTIP):**

Executive Officers (other than the CEO) are awarded time-based restricted stock units that vest over a three-year period—each year 1/3 of the units vest and shares are issued on an annual basis provided the executive officer is employed on the last day of the vesting period. For the CEO, the restricted stock units vest in three equal annual increments, provided the CEO remains employed by the Company on the last day of each year of the

⁶ Value represented above includes avoided costs, efficiencies with benefits redeployed in the utility, net present value of long-lived asset programs, re-invested sourcing benefits and power supply cost reductions.

three-year period. Vesting is also based on the attainment of a performance target so that the compensation qualifies as performance-based compensation and is tax-deductible by the Company. Dividend equivalents accrue on the unvested units and, if the executive officer, as well as the CEO, is employed on the last day of the vesting period, the dividend equivalents are paid in cash at the same time that the underlying units vest and are paid in shares. Therefore, if his or her employment ends prior to the last day of the vesting period, no units or dividend equivalents are earned.

2. Performance Based Equity Awards (75% of LTIP):

Performance share awards are granted under the LTIP and will vest based on performance over a three-year period. The number of contingent shares varies based on the Company's three-year relative total shareholder return compared to the returns reported in the S&P 400 Utilities Index. Dividend equivalents are paid in cash based on the total number of units earned at the end of the performance cycle provided the performance goals are met. Therefore, if the total shareholder return does not meet the threshold performance level, then no units or dividend equivalents are earned.

See Attachment D, Avista Corporation Executive Officer Long Term Incentive Plan, for additional details related to these components.

Benefits Package

All regular employees, including executive officers, are eligible for the Company's Qualified Defined Benefit plan, the Company's 401(k) plan, health and dental coverage, Company-paid term life insurance, disability insurance, paid time off and paid holidays. This benefit package offers several choices as to the type of medical plan, dental plan, life insurance, etc to determine the best fit for their circumstances. These plans are designed to be competitive with the overall market practices and are in place to attract and retain the talent needed in the business. As with all portions of the plan, the Company works with a third-party administrator to determine the annual rates for the Company and for each individual employee based on their elections.

Avista sponsors a self-funded medical benefit plan that provides various levels of coverage for medical, dental and vision. Avista encourages employees to take responsibility for their health care decisions and make lifestyle changes to avoid health care issues. The Company also encourages participants to adopt and maintain healthy lifestyles, and use health care wisely. Proactive programs are set up to help individuals change their behaviors and live a healthier life. The Company addresses this by using a health continuum; low risk (Wellness), moderate risk (Wellness, Lifestyle Health Coaching) and high risk (Disease Management, Case Management).

Retirement programs are crucial to attracting and retaining a skilled workforce within the utility industry. For active employees, a defined benefit pension plan and a defined contribution plan provide a balanced retirement opportunity for employees. The Company's Retirement Plan for Employees (defined benefit pension plan) provides a retirement benefit based upon employees' compensation and years of credited service. The retirement benefit is based on a participant's final average annual base salary for the highest 36 consecutive months during the last 120 months of service with the Company. The defined contribution plan, or 401(k) plan, provides tax deferred savings providing partial matching dollars for the first 6% invested by the employee (except for union employees). The matching feature

encourages participation in the plan and provides incentive to maximize contributions to take full advantage of the Company match. These programs, in combination with pay and other benefits, are keys to attracting and retaining quality employees to run our business. See Attachment E, 2011 Employee Benefit Summary, for further additional details related to the benefit plans.

Other Executive Benefits

1. Supplemental Executive Officer Retirement Plan (SERP)

In addition to the Company's retirement plan for all employees, the Company provides additional pension benefits through the SERP to executive officers of the Company who have attained the age of 55 and a minimum of 15 years of credited service with the Company. The costs associated with SERP are excluded from retail rates.

2. Deferred Compensation

The Executive Officer Deferred Compensation plan provides the opportunity to defer up to 75% of base salary and up to 100% of cash bonuses for payment at a future date. This plan is competitive in the market, and provides eligible employees and executive officers with a tax-efficient savings method. The costs associated with Deferred Compensation are excluded from retail rates.

3. Perquisites

Because the total compensation program for executive officers is fair and market competitive, the Company does not provide any additional benefits in the form of perquisites to the CEO or any other officer.

2. Setting of Executive Officer Compensation Levels

Avista is committed to providing a total compensation program that will attract and retain qualified people required to meet the needs and expectations of all utility stakeholders, including, but not limited to, customers, shareholders and regulators. The overarching compensation philosophy is that success is measured by the ability to hire, develop, and retain the most competent people to work in a very complex industry. In an effort to recruit and retain such people, Avista provides base salaries, performance-based award programs and benefits that are competitive in the marketplace as benchmarked against other similar-sized companies in regional and national markets.

The Compensation Committee of the Board of Directors is responsible for considering and approving, as well as overseeing the risk associated with, the compensation and benefits of executive officers of the Company. The Compensation Committee is composed of independent directors as defined by the rules of the New York Stock Exchange, and in addition, complies with the "outside director" requirement of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and the "non-employee director" requirement of Rule 16b-3 under the Exchange act. Board members are elected based on factors that are in the best interest of the Company and its shareholders, including the knowledge, experience, integrity, and judgment of each candidate; the potential contributions of each candidate to the diversity of backgrounds, experience and competencies that the Board desires to have represented; each candidates' ability to devote sufficient time and effort to his or her duties as a

director; independence and willingness to consider all strategic proposals and other criteria established by the Board, as well as any core competencies or technical expertise necessary to staff Board Committees.

The Compensation Committee employs an independent executive compensation consultant, Towers Watson, to assist them in their review of current executive pay practices. Because the Compensation Committee believes that its executive compensation consultant should be able to render advice to the Committee free of management's influence, the Compensation Committee has processes in place to assure independence. The consultant reports directly to the Compensation Committee on all executive compensation matters; regularly meets separately with the Compensation Committee outside the presence of management; and speaks separately with the Compensation Committee Chair and other Compensation Committee members between meetings, as necessary or as requested by the Compensation Committee.

Towers Watson assists in the following ways:

- Benchmarking pay practices among the peer group and providing a broader market perspective;
- Assessing the design of individual pay elements and the total pay program relative to the Company's objectives, market practices and other factors;
- Assisting the Compensation Committee in reviewing compensation recommendations prepared by management; and
- Providing the Compensation Committee with an outside perspective and, as appropriate, specific recommendations on program design.

Towers Watson presents information on current market practices and, as appropriate, provides recommendations for consideration by the Compensation Committee. See Confidential Attachment G Towers Watson Total Direct Compensation Review for additional information.

One of the core principles of the executive compensation program is to ensure management's interests are aligned with customers' and shareholders' interests to support long-term value creation. Accordingly, the 2011 Proxy included a "Say-On-Pay" proposal for a non-binding advisory vote giving shareholders the opportunity to vote on the executive compensation program. This proposal was approved by shareholders at the May, 2011 Shareholders' Annual Meeting, included as part of the Proxy, and a vote was cast. While the vote was advisory, and not binding on the company, the 94% shareholder approval vote sent a signal to management and the Compensation Committee that shareholders believe the executive compensation program is designed appropriately and is working to ensure management's interests are aligned with customers' and shareholders' interests.

The Compensation Committee believes that an effective total compensation plan should be structured to focus executive officers on the achievement of specific business goals set by the Company and to reward executive officers for achieving those goals. Considerable time is spent weighing various design options to ensure that top management's compensation is primarily performance-based, fair,

and reasonable and does not encourage key decision makers to take excessive risks.

The Compensation Committee continues to review best practices and maintain appropriate alignment between pay and performance, with emphasis on long-term customer and shareholder value. This principle applies generally to our executive officer pay practices. The Compensation Committee takes into consideration external factors, such as the executive officer labor market, in order to create a program that is designed to attract, retain, and appropriately motivate the key employees of the Company who drive customer and shareholder value creation over the long term. The Compensation Committee also has a clear goal to ensure the overall program has a direct link between pay and performance and the right mix between fixed pay and pay at risk. See Section 1. Executive Officer Compensation Description for additional information.

Key compensation principles have been established to guide the design and ongoing administration of the Company's overall compensation program. According to these principles, the Company's compensation plans are intended to:

- Clearly identify the specific measures of Company performance that are likely to create long-term value for the Company's customers and shareholders;
- Structure incentive pay programs to reward specified levels of performance on measures designed to help the Company achieve:
 - Shareholder value targets;
 - Earnings per share targets;
 - Relative stock performance levels compared to peers;
 - Customer service targets;
 - Operational targets;
- Promote a culture of safety;
- Align elements of the incentive plans among all Company employees and executive officers;
- Maintain total compensation at market competitive levels; and
- Provide a range of payout opportunities based on the level of achievement of performance goals.

Competitive Analysis

When determining the types and amounts of compensation to be paid to executive officers, the Compensation Committee considers it important to provide an overall plan that reflects officers' compensation paid to similarly situated executive officers of peer companies, to maintain a competitive position within the energy/utility industry and to ensure the Company retains and attracts quality employees in key positions to lead the Company. To achieve this objective, the Compensation Committee works with Towers Watson to conduct an annual competitive review of its total compensation program for executive officers. Through the review process the Compensation Committee establishes levels of base salaries, short-term annual incentives, and long-term incentives that are generally targeted to be near the median of the amounts paid by a peer group, based on competitive data gathered by Towers Watson. However, the Compensation Committee exercises its discretion to set any one or more of the components at levels higher or lower than the median depending on an individual's role, responsibilities, and performance within the Company. The Compensation Committee believes this target positioning is effective to attract and retain our executive

officers.

The Compensation Committee annually compares each element of total direct compensation, which includes base salary, annual cash incentives, and the value of long-term incentive grants, against a specific peer group of publicly-traded companies within the energy/utility industry. The companies in the peer group generally recruit individuals who are similar in skills and background to those the Company recruits to fill senior management positions, and are the companies with which Avista competes for executive officers and for shareholder investment.

Peer Group Companies

In 2011, the Compensation Committee asked Towers Watson to use its Energy Services Executive Officer Compensation database to perform a study of the compensation structure of comparable diversified energy companies with revenues between \$1 billion and \$3 billion to assure the data presented to the Compensation Committee reflected the Company's general size and scope within the market. Organizations that benchmark compensation levels and practices typically select a sample of companies to gather this information. It is a widely-accepted practice that, for executive officer compensation benchmarking, it is important to select companies of similar size and with similar business characteristics, as these factors have been shown to have the strongest correlation to compensation opportunities. Governance groups, proxy advisors, and investors all view a peer group of companies within a size range of approximately .5x to 2x the companies size (as measured by revenues and secondarily market capitalization) to be an appropriate peer group. In addition, these organizations should be in the same industry (to the extent there are enough industry peers) and the peer group should be large enough that there are not statistical challenges with the data samples.

For benchmarking its executive officer group, Avista's primary source is the set of companies in the \$1 billion to \$3 billion standard data sample in Towers Watson's Energy Services Survey. This sample typically includes approximately 30 companies, the majority of which are investor-owned. The companies comprising the Compensation Peer Group for the 2011 study were:

Areva	Northwest Natural
Black Hills Corp	NorthWestern Energy
Covanta Holdings	OGE Energy
CPS Energy	Oglethorpe Power
DPL Inc	PNM Resources
Energen	Portland General Electric
E On US	Proliance Holdings
First Solar	Regency Energy Partners LP
GenOn Energy	Salt River Project
Hawaiian Electric	Santee Cooper
IDACORP Inc	Southern Union Company
Lower Colorado River Authority	Unisource Energy
Mirant	Vectren
New York Power Authority	Westar Energy
Nicor	

The Compensation Committee also reviews compensation data from other regional peers in an effort to

obtain as much intelligence on trends within the region, as well as the overall energy industry. The Compensation Committee uses all of these sources of data to help make informed decisions about market compensation practices.

As can be seen in the listing above, some local utilities were not considered in the review of market data. Puget Energy and PacifiCorp do not fall within the \$1.0 billion to \$3.0 billion range for peer comparisons. NW Natural, Portland General and IDACORP were included as part of the sample as they are participants in the survey, their revenues fall within this sample range and are investor-owned.

Typically those companies that are consumer-owned (PUDs, REAs, Co-ops, or Municipals) are excluded from the sample. Investor-owned utilities (IOUs) have different challenges than consumer-owned utilities, and as such, executive compensation programs are structured differently. As management of a publicly-traded investor-owned utility, the Company's officers have responsibilities to a broader constituency than our consumer-owned counterparts. Publicly-traded companies such as Avista answer not only to customers, but also to a broader investment community, including shareholders, as well as multiple state and federal regulatory agencies.

As a vertically integrated utility, Avista owns and operates not only an electric distribution system like our consumer-owned counterparts, but also owns and operates extensive generation and transmission facilities, all of which are used to serve customers in its multiple service areas in Washington, Idaho and Montana. Avista must manage and optimize its generation assets daily, keep existing assets operational and licensed for our customers, and develop future resource needs. Finally, as noted elsewhere, Avista must remain competitive in its compensation philosophy with other investor-owned utilities.

This requires Avista to attract and retain executive officers who have the requisite experience and knowledge. This also places additional demands on management in terms of disclosure and reporting. This includes understanding and oversight of reporting and compliance requirements of multiple jurisdictions (FERC, SEC, UTC, etc.) and multiple services (electric and natural gas), as well as increased accounting and other financial reporting requirements.

3. Appropriate Level of Executive Officer Compensation in Rates

Avista believes that the executive officer compensation programs are structured appropriately to meet the Company's business objectives. The executive officer compensation programs have played a material role in focusing the executive officer team on achieving solid financial results, maintaining system reliability, and delivering outstanding customer service. The compensation structure and levels serve as an appropriate tool to help motivate, retain and attract a highly experienced, successful executive officer team to manage the Company.

Ratepayers benefit from effective and capable utility management through innovation, efficiencies and leadership on strategic initiatives. Avista's total compensation philosophy creates the right focus for executive officers because a major portion of the overall earning opportunity is at risk. Employees and executive officers, as a whole, have to achieve the goals of the incentive plan for the plan to payout.

This tension in plan design helps motivate and focus all employees on the stated goals of the Company. In order to achieve additional level of compensation, employees have to keep focused on cost control, customer satisfaction and reliability within the system. Avista's existing total compensation plan is correctly weighted to retain current employees, while remaining competitive enough to attract new employees. A pay-at-risk component of compensation is not designed to pay out the full incentive opportunity every year, nor is it designed to have no payout for an extended period of time. Pay-at-risk plans are designed to help focus employees on making decisions that benefit the Company and its customers, while at the same time functioning as an integrated component of total compensation.

With the aid of Towers Watson, the Compensation Committee benchmarks each item in the compensation program against companies similar in size and business characteristics. Levels are set based on this research, experience levels and individual contributions. These factors are evaluated every year and adjusted as needed. The current levels of compensation are based on the results of that analysis and we believe are appropriate given our peer group.

Ratepayers receive several benefits from utility operational components of the incentive plan, making it appropriate for recovery. The plan focuses executive officers on key objectives of the Company, including reliability, customer service and operational efficiency which directly benefits customers, and overall operational efficiency translates into lower rates. The Short Term Incentive plan focuses our Executive officers on those areas that provide ratepayers benefit. Various options have been explored surrounding compensation and benefit programs to assess whether eliminating or reducing various programs would be appropriate given today's economic environment. If we were to eliminate the incentive plan, within one or two years after freezing wages, Avista would have to make upward market adjustments in order to bring current employee salaries up to appropriate levels. Finally, the Incentive Plan is part of a comprehensive benefits package provided to employees that make Avista an attractive employer to skilled, experienced talent in the marketplace.

The components of the executive officer LTIP are not in rates because it is based on elements focusing on shareholder value. The SERP and Deferred Compensation programs are also not in rates because they are benefits over and above what is offered to all employees as part of their total compensation package. However, the employee defined benefit pension plan is included in rates because it is a core benefit to all employees, which executives are a part of. As with all of the components of the overall compensation package, benefits are set at a level consistent with a peer group of companies, such that the Company can attract, motivate and retain the best employees to work at and manage the Company.

Conclusion

A considerable amount of time and effort goes into the development of Avista's overall executive compensation program. The Board of Directors has an independent Compensation Committee to oversee all aspects of the program, including base salaries, STIP, LTIP, SERP/deferred compensation, and other benefits. The Compensation Committee relies on additional analysis from an independent compensation expert, Towers Watson, for each pay element relative to the Company's objectives, market practices and other factors consistent within a peer group of utilities of similar size and characteristics as Avista. Finally, Avista's shareholders weigh in on the program through the "Say-

On-Pay” vote in the annual proxy, which passed in 2011 with a 94% approval rate. The level of compensation and benefits provided to executive officers is what other similar utilities offer.

The Company’s compensation package is designed to be competitive with other organizations in the utility industry, and attract and retain qualified employees. The compensation programs are intended to align the executive officer interests with those of our shareholder and customers with the focus on achieving solid results, controlling costs, maintaining system reliability, and delivering outstanding customer service. In accordance with the pay-for-performance philosophy, the total compensation received by executive officers reflects corporate and operational performance measured against annual and long term performance goals.

As shown in Illustration 1, of the total salaries and incentive pay for all officers of \$9.5 million in 2011, 41.6% or \$3.8 million is included in retail rates on a system basis. Washington’s portion of the overall salaries and incentive pay included in rates is \$2.4 million, or 25% of the total salaries and incentive pay.

Review of Executive Officer Compensation

Attachment A

Avista Corporation Notice of 2012 Annual Meeting and Proxy Statement

February 28, 2012



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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement **Confidential, for Use of the Commission Only**
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

AVISTA CORPORATION

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which the transaction applies:
 - (2) Aggregate number of securities to which the transaction applies:
 - (3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of the transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:



Notice of May 10, 2012 Annual Meeting and 2012 Proxy Statement



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Important Voting Information

Under the New York Stock Exchange (NYSE) rules, brokerage firms generally have the authority to vote shares when their customers do not provide voting instructions. However, with respect to certain specified matters, when the brokerage firm does not receive instructions from its customers, the brokerage firm cannot vote shares on those matters. This is called a "broker non-vote." Matters on which brokers may not vote without instructions include the election of directors, matters relating to executive compensation and matters relating to certain corporate governance issues. This means that brokers may not vote shares on Proposals 1, 3, and 4 if you have not given your broker instructions on how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

Your Participation in Voting the Shares You Own is Important

Your vote is important. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote and submit your proxy by mail, telephone, or the Internet as promptly as possible. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

More Information is available

If you have any questions about the proxy voting process, please contact the broker, bank or other financial institution where you hold your shares. The Securities & Exchange Commission (SEC) also has a website (www.sec.gov/spotlight/proxymatters.shtml) with more information about your rights as a shareholder. Additionally, you may contact our Investor Relations Department at (509) 495-4203.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 10, 2012

This proxy statement and the 2011 Annual Report are available on the Internet at <http://proxyvote.com>



Prompt execution of the enclosed proxy will save the expense of an additional mailing.
Your immediate attention is appreciated.



March 30, 2012

Dear Fellow Shareholder:

On behalf of the Board of Directors (Board), it's my pleasure to invite you to the 2012 Annual Meeting of Shareholders. The doors open at 7:30 a.m. and the meeting will begin promptly at 8:15 a.m.

Date	Thursday, May 10, 2012	Place:	Avista Main Office Building
Time	7:30 a.m. Doors Open		Auditorium
	7:45 a.m. Refreshments		1411 E. Mission Avenue
	8:15 a.m. Annual Meeting Convenes		Spokane, Washington

Information about the nominees for election as members of the Board of Directors and other business of the meeting is set forth in the Notice of Meeting and the Proxy Statement on the following pages.

Please take the opportunity to review the Proxy Statement and 2011 Annual Report. Your vote is important regardless of the number of shares you own.

For your convenience, we are pleased to offer an audio webcast of the Annual Meeting if you cannot attend in person. If you choose to listen to the webcast, go to www.avistacorp.com shortly before the meeting time and follow the instructions for the webcast. You can also listen to a replay of the webcast, which will be archived at www.avistacorp.com for one year.

Thank you for your continued support.

Sincerely,

Scott L. Morris
Chairman of the Board,
President & Chief Executive Officer

Avista Corporation—1411 E. Mission Ave.—Spokane, Washington 99202
Investor Relations—(509) 495-4203

**If you require special accommodations at the Annual Meeting due to a disability, please call our
Investor Relations Department by April 13.**



AVISTA CORPORATION

1411 East Mission Avenue
Spokane, Washington 99202

NOTICE OF ANNUAL MEETING

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 10, 2012

This proxy statement and the 2011 Annual Report are available on the Internet at
<http://proxyvote.com>

Date: Thursday, May 10, 2012
Time: 8:15 a.m., Pacific Time
Place: Avista Main Office Building—Auditorium
1411 E. Mission Avenue, Spokane, Washington
Record Date: March 9, 2012

- Meeting Agenda:**
- 1) Election of eleven directors.
 - 2) Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2012.
 - 3) Amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements. The Board recommends a vote "FOR" this proposal.
 - 4) Advisory (non-binding) vote on executive compensation. The Board recommends a vote "FOR" this proposal.
 - 5) Transaction of other business that may come before the meeting or any adjournment(s).

All shareholders are cordially invited to attend the meeting in person. Shareholders who cannot be present at the meeting are urged to vote and submit their proxy by mail, telephone, or the Internet as promptly as possible. Please sign and date the proxy card and return it promptly or cast your vote via telephone or the Internet in accordance with the instructions on the proxy card and/or proxy notice.

By Order of the Board,

Karen S. Feltes
Senior Vice President & Corporate Secretary

Spokane, Washington
March 30, 2012



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TABLE OF CONTENTS

<u>GENERAL</u>	1
<u>VOTING</u>	1
<u>CORPORATE GOVERNANCE MATTERS</u>	2
<u>PROPOSAL 1—ELECTION OF DIRECTORS</u>	8
<u>AUDIT COMMITTEE REPORT</u>	16
<u>EXECUTIVE COMPENSATION SUMMARY</u>	17
<u>COMPENSATION DISCUSSION AND ANALYSIS (CD&A)</u>	18
<u>COMPENSATION GOVERNANCE MATTERS</u>	36
<u>EXECUTIVE COMPENSATION TABLES</u>	39
<u>DIRECTOR COMPENSATION—2011</u>	52
<u>PROPOSAL 2—RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	53
<u>PROPOSAL 3—PROPOSED AMENDMENTS TO RESTATED ARTICLES OF INCORPORATION TO REDUCE CERTAIN SHAREHOLDER APPROVAL REQUIREMENTS</u>	55
<u>PROPOSAL 4—ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	59
<u>SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS</u>	60
<u>SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	61
<u>OTHER SECURITY OWNERSHIP</u>	61
<u>ANNUAL REPORT AND FINANCIAL STATEMENTS</u>	61
<u>OTHER BUSINESS</u>	61
<u>2013 ANNUAL MEETING OF SHAREHOLDERS</u>	61
<u>EXPENSE OF SOLICITATION</u>	62
<u>EXHIBIT A—PROPOSED AMENDMENTS TO RESTATED ARTICLES OF INCORPORATION</u>	63



AVISTA CORPORATION
1411 East Mission Avenue
Spokane, Washington 99202

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 10, 2012

GENERAL

Your vote is important. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote and submit your proxy by mail, telephone, or the Internet as promptly as possible. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

At the close of business on the record date, March 9, 2012, there were _____ shares of Company common stock outstanding and entitled to vote at the Annual Meeting. Shares represented at the meeting by properly executed proxies will be voted at the meeting. If the shareholder specifies voting instructions, the shares will be voted as indicated. A proxy may be revoked at any time prior to the Annual Meeting.

VOTING

Holders of Company common stock, the Company's only class of securities with general voting rights, will be entitled to one vote per share. Under Washington law, action may be taken on matters submitted to shareholders only if a quorum is present at the meeting. The presence at the Annual Meeting in person or represented by proxy of holders of a majority of the shares of the Company's common stock outstanding on the record date will constitute a quorum. Subject to certain statutory exceptions, once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting.

Proposal 1—election of directors, a nominee will be elected if the number of votes cast “for” exceeds the number of votes “against.” Abstentions or broker non-votes (see voting instructions at the beginning of this proxy statement) will have no effect on the election of that director. If no instructions are given on a proxy with respect to this proposal, the holders of the shares represented by that proxy card will be deemed to abstain from voting on this proposal. Shareholders may not cumulate votes in the election of directors. If an incumbent director does not receive a majority of votes cast with respect to his/her re-election in an uncontested election, he/she would continue to serve a term that would terminate on the date that is the earliest of: (i) the date of the commencement of the term of a new director selected by the Board to fill the office held by such director, (ii) the effective date of the resignation of such director or (iii) December 31, 2012.

Proposal 2, the proposal for ratifying the appointment of the firm of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2012, will be approved if the number of votes duly cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting will have no impact on the outcome of this proposal. If no instructions are given on a proxy card with respect to this proposal, the shares represented by that proxy will be voted for this proposal.

Proposal 3, the proposal for amending the Articles to reduce certain shareholder approval requirements, has been divided into two proposals—3A and 3B. Proposal 3A will be approved upon the affirmative vote of the holders of 2/3 of the outstanding shares of common stock. Proposal 3B will be approved upon the affirmative vote of the



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holders of 80% the outstanding shares of common stock. Abstentions or broker non-votes (see voting instructions at the beginning of this proxy statement) will have the same impact as a negative vote on the outcome of Proposals 3A and 3B. If the shares represented by a proxy card are registered in the name of the beneficial owner (and not a broker) and if no instructions are given on the proxy card with respect to these proposals, the shares represented by that proxy card will be voted for these proposals.

Proposal 4, the advisory (non-binding) vote on executive compensation, will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting and broker non-votes will have no impact on the outcome of Proposal 4. If the shares represented by a proxy card are registered in the name of the beneficial owner (and not a broker) and if no instructions are given on the proxy card with respect to this proposal, the shares represented by that proxy card will be voted for this proposal.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Principles

The Board has long adhered to governance principles designed to assure the continued vitality of the Board in the execution of its duties. The Board is responsible for management oversight and providing strategic guidance to the Company. The Board believes that it must continue to renew itself to ensure that its members understand the industry and the markets in which the Company operates. The Board also believes that it must remain well-informed about the positive and negative issues, problems and challenges facing the Company and markets so that the Board members can exercise their fiduciary responsibilities to the Company's shareholders.

Board Leadership Structure

For most of the Company's history, the Chief Executive Officer (CEO) has also served as Chairman of the Board (Chairman). The Board does not have a policy as to whether the role of CEO should be separate from that of Chairman, nor, if the roles are separate, whether the Chairman should be selected from the independent directors or should be an employee of the Company. The Board selects the Chairman in a manner that it determines to be in the best interests of the Company and its shareholders. This flexibility has allowed the Board to determine whether the role should be separated based on the individuals and the circumstances existing at that time.

The positions of CEO and Chairman have not been separated except for on one occasion during 2000-2001. The Board believes that the Company has been well served by this leadership structure. The separation of the Chairman and the CEO could introduce a complex new relationship into the center of the Company's corporate governance structure. Having a single leader for both the Company and the Board eliminates the potential for confusion or duplication of efforts and provides clear leadership for the Company, the Board and the markets.

The Board has examined the questions of the separation of the positions of the Chairman and the CEO and the independence of the Chairman. The Board concluded that it should not have a rigid policy as to these issues but, rather, should consider them, together with other relevant factors, to determine the right leadership structure. The Board believes that it needs to retain the ability to balance the independent Board structure with the flexibility to appoint as Chairman someone with hands-on knowledge of and experience in the operations of the Company. The Board periodically examines its governance practices, including the separation of the offices of Chairman and CEO. Having a single person serve as Chairman and CEO continues to provide unified and responsible leadership and is currently the right form of leadership for the Company and the Board.

The Company is led by Scott L. Morris, who has served as its Chairman, President and CEO since 2008. The Board is strengthened by the presence of Mr. Morris. Given the issues facing the Company and the possible technological, regulatory and legislative changes that may occur in the industry, the Board believes that Mr. Morris provides strategic, operational, and technical expertise and context for the matters considered by the Board.



The Board has also established the position of an independent Lead Director. John F. Kelly was re-elected by the independent directors in 2010 to serve as Lead Director for a three-year term. The Lead Director's duties include:

- maintaining an active, positive and collaborative relationship with the Chairman and the CEO and keeping an open line of communication that provides for dissemination of information to the Board and discussion before actions are finalized;
- serving as primary liaison between independent directors and the Chairman and CEO;
- presiding at all meetings at which the Chairman is not present, including executive sessions of the independent directors held at each regularly scheduled Board meeting;
- calling meetings of the independent directors when necessary and appropriate; and
- working with the Chairman to set meeting schedules and agendas for the Board meetings, including soliciting input from the other independent directors on items for the Board agendas, to ensure that appropriate agenda items are included and that there is adequate time for discussion of agenda items.

The Lead Director is available for communications and consultation with major shareholders. The Company has a mechanism for shareholders to communicate with the Lead Director, non-management directors as a group, or on an individual basis. (See "Communications with Shareholders" on page 6.)

The Board has been, and continues to be, a strong proponent of director independence. As a result, the Company's corporate governance structures and practices provide for a strong, independent Board and include several independent oversight mechanisms. The Board believes this governance structure and these practices ensure that strong and independent directors will continue to effectively oversee the Company's management and key issues related to its long-range business plans, long-range strategic issues, risks and integrity. The Board is comprised of Mr. Morris and ten independent directors. The Board has five independent Committees with separate independent Chairs—Audit Committee, Compensation & Organization Committee (Compensation Committee), Corporate Governance/Nominating Committee (Governance Committee), Finance Committee and Energy, Environmental & Operations Committee—see Committee descriptions below. All members of these Board Committees are independent. In addition, all Board Committees may seek legal, financial or other expert advice from sources independent from management.

Director Independence

It is the policy of the Board that a majority of the directors be independent from management and that the Board will not engage in transactions that would conflict with the Company's business. Independence determinations are made on an annual basis at the time the Board approves nominees for election at the next Annual Meeting and, if a director joins the Board between Annual Meetings, at such time. To assist in this determination, the Board adopted Categorical Standards for Independence of Directors (Categorical Standards).

During its annual review, the Board considered transactions and relationships between each director or any member of his/her family and the Company and its subsidiaries and affiliates, including those reported under "Related Party Transactions" below. The Board also considered whether there were any transactions or relationships between directors or any member of their immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner, or significant equity holder) and members of the Company's senior management or their affiliates. The purpose of the review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent.

As a result of this review, the Board has affirmatively determined that the directors nominated for election at the Annual Meeting are independent of the Company and its management under the Categorical Standards, adopted by the Board, with the exception of Mr. Morris, who is considered an inside director because of his employment as President and CEO of the Company.



Related Party Transactions

The Board recognizes that related party transactions present a heightened risk of conflicts of interest and/or improper valuation (or the perception thereof) and, therefore, has adopted a Related Party Transaction Policy, which will be followed in connection with all related party transactions involving the Company and specified related persons that include directors (including nominees) and executive officers, certain family members and certain shareholders, all as outlined in the applicable Securities and Exchange Commission (SEC) rules.

SEC rules require that the Company disclose any related party transaction in which the amount involved exceeds \$120,000 in the last year. The Governance Committee has determined that the Company has no related party transactions that were reportable for 2011.

In making its determination, the Board considered the following relationships, which it determined were immaterial to the director's independence. The Board considered that the Company and its subsidiaries in the ordinary course of business have during the last three years purchased products and services from companies at which some of our directors were officers, board members, or investors during 2011.

- Ms. Stanley is co-owner and Chair of the Board of a company that had for many years prior to the date Ms. Stanley became a director, sold hardware supplies to the Company in arm's length transactions. The amount paid to that company in 2011 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.
- Mr. Taylor is a Board member of a corporation which owns and operates radio stations in Idaho, Washington and Oregon. In 2011, the Company's ad agency purchased radio advertisements on those stations. The amount paid to that company in 2011 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

Board Meetings

The Board held six meetings in 2011. The attendance at all Board meetings and at all Board Committee meetings was 94.9%. The Board strongly encourages its members to attend all Annual Meetings of Shareholders. All directors attended the prior year's Annual Meeting of Shareholders and are planning to attend the 2012 Annual Meeting.

Meetings of Independent Directors

The independent directors meet at each regularly scheduled Board meeting in an executive session without management present. The Lead Director chairs the executive sessions. The Lead Director establishes the agenda for each executive session, and also determines which, if any, other individuals, including members of management and independent advisors, should be available for each such meeting.

Duties of Chairman of the Board

The Chairman's duties include chairing all meetings of the Board in a manner that effectively utilizes the Board's time and which takes full advantage of the expertise and experience that each director has to offer; establishing an agenda for each Board meeting with the Lead Director, with input from other directors and management; and providing input to the Chair of the Governance Committee on the selection of members and Chairs of the various Board Committees and candidates for Board membership. The Chairman is also responsible for all issues of corporate governance that should come to the attention of the Chair of the Governance Committee and the full Board. He also ensures that the Board is provided with full information on the condition of the Company, its businesses, the risks facing the Company, and the environment in which it operates; and facilitates and encourages constructive and useful communication between the Board and management. The Chairman also recommends an agenda to the Board for its approval for each shareholder meeting; provides leadership to the Board in the establishment of positions that the Board should take on issues to come before the Annual Meeting; and presides at all shareholder meetings.



Committees

Each Committee of the Board has adopted a Charter that has been approved by the Board. The Charters are reviewed on a periodic basis and amendments are made as needed. Each Committee also performs an annual self-assessment relative to its purpose, duties, and responsibilities. The Committee Charters are located on the Company's website at www.avistacorp.com. A written copy of our Committee Charters will be provided free of charge to any person upon request to the General Counsel's office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

Audit Committee—Assists the Board in overseeing the integrity of and the risks related to the Company's financial statements, the Company's compliance program dealing with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, the performance of the Company's internal audit function and independent registered public accounting firm, and the Company's systems of internal controls regarding accounting, financial reporting, disclosure, legal compliance and ethics that management and the Board have established, including without limitation all internal controls established and maintained pursuant to the Securities Exchange Act of 1934 (the Exchange Act) and by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Audit Committee oversees the Company's risk assessment and risk management processes and the business continuity process. Only independent directors sit on the Audit Committee. During 2011, the Audit Committee consisted of directors Burke, Noël, Stanley, and Blake—Chair. The Board has determined that Mr. Noël is an "Audit Committee Financial Expert," as defined in the SEC rules. Eight meetings were held in 2011.

Compensation Committee—Considers and approves, as well as oversees the risks associated with, compensation and benefits of executive officers of the Company. The Compensation Committee is also responsible for overseeing the organizational structure of the Company and succession planning for the CEO and the executive officers.

For a discussion of the Company's processes and procedures for the consideration and determination of executive officer compensation (including the role of executive officers and compensation consultants in determining or recommending the amount or form of compensation) see "Compensation Discussion and Analysis" starting on page 18.

The Compensation Committee is composed of independent directors as defined by the rules of the NYSE, and, in addition, complies with the "outside director" requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and the "non-employee director" requirements of Rule 16b-3 under the Exchange Act.

The Compensation Committee consists of directors Kelly, Klein, Noël and Taylor—Chair. Five meetings were held in 2011.

Governance Committee—Advises the Board on corporate governance matters and oversees the risks relating to such matters including recommending guidelines for the composition and size of the Board, evaluating Board effectiveness and organizational structure and setting director compensation (see the section on Director Compensation on page 52 for further information). This Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. Director nominations by shareholders may be submitted in accordance with the procedures set forth under "Director Qualifications and Process for Selecting Board Nominees" below. Only independent directors sit on this Committee. The Governance Committee consists of directors Blake, Racicot, Taylor and Kelly—Chair. Five meetings were held in 2011.

Energy, Environmental and Operations Committee—Assists the Board in overseeing risks associated with the Company's legal and regulatory compliance in its operations including environmental compliance, energy resources, transmission and distribution operations, employee safety performance, and corporate security. Only independent directors sit on this Committee. The Committee consists of directors Anderson, Holley, Racicot and Klein—Chair. Four meetings were held in 2011.



Finance Committee—Strives to ensure that corporate management has in place strategies, budgets, forecasts, and financial plans and programs, including adequate liquidity, to enable the Company to meet its goals and objectives and oversees the associated risks. The Finance Committee's activities and recommendations include reviewing management's qualitative and quantitative financial plans and objectives for both the short and long- term; approving strategies with appropriate action plans to help ensure that financial objectives are met; having in place a system to monitor progress toward financial goals, including monitoring commodity price and counterparty credit risk, as well as taking any necessary action; and overseeing and monitoring employee benefit plan investment performance and approving changes in investment policies, managers, and strategies. Only independent directors sit on this Committee. The Finance Committee consists of directors Burke, Holley, Stanley, and Anderson—Chair. Five meetings were held in 2011.

Executive Committee—Has and may exercise, when the Board is not in session, all the powers of the Board that may be lawfully delegated, subject to such limitations as may be provided in the Bylaws, by resolutions of the Board, or by law. Generally, such action would only be taken to expedite Board authorization for certain corporate business matters when circumstances do not allow the time, or when it is otherwise not practicable, for the entire Board to meet. The Executive Committee consists of directors Blake, Kelly, Taylor, and Morris— Chair. No meetings were held in 2011.

Corporate Governance Guidelines

The Board has established Corporate Governance Guidelines which are reviewed annually.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our CEO (the principal executive officer) and our Chief Financial Officer (CFO) (the principal financial officer) and the Board.

Information on Company Website

The Company's Corporate Governance Guidelines, the Code of Business Conduct and Ethics, Categorical Standards for Independence of Directors and the Related Party Transaction Policy are available on the Company's website at www.avistacorp.com. A written copy of any of these documents will be provided free of charge to any person upon request to the General Counsel's office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

Communications with Shareholders

During 2011, the Company contacted a number of major shareholders to solicit information regarding issues of concern to the shareholders with respect to corporate governance and executive compensation. Those discussions were conducted by teleconference. The Company will continue to solicit shareholder input on issues of concern to them.

Shareholders and other interested parties may send correspondence to our Board or to any individual director to the Corporate Secretary's office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-10), Spokane, Washington 99220. Concerns about accounting, internal accounting controls or auditing matters should be directed to the Chair of the Audit Committee at the same address. All communications will be forwarded to the person(s) to whom they are addressed, unless it is determined that the communication:

- does not relate to the business or affairs of the Company or the functioning or constitution of the Board or any of its Committees;
- relates to routine or insignificant matters that do not warrant the attention of the Board;



- is an advertisement or other commercial solicitation or communication;
- is frivolous or offensive; or
- is otherwise not appropriate for delivery to directors.

The director or directors who receive any such communication have discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board or one or more of its Committees and whether any response to the person sending the communication is appropriate. Any such response will be made through the Company's Corporate Secretary or General Counsel and only in accordance with the Company's policies and procedures and applicable laws and regulations relating to the disclosure of information.

Board Risk Oversight

The Board has an active role in overseeing the risks affecting the Company. The Board's risk oversight process includes receiving reports from members of corporate management on areas of material risk to the Company, including operational, financial, legal and regulatory, strategic and reputational risks. The Board's oversight is conducted primarily through the Committees of the Board as set out above in the descriptions of each Committee and as set out in their Charters, but the full Board retains responsibility for general oversight of risks. Management is responsible for the day-to-day management of risks, and the appropriate officer within the Company reports on risk to the appropriate Board Committee or to the full Board. For example, quarterly, the Director of Risk Management reports on the Company's risk analysis and risk management processes to the Audit Committee and, annually, the CFO reports to the entire Board on the Company's enterprise risk program and processes. When a Committee receives a report from management, the Chair of that Committee advises the full Board at its next meeting. This enables the Board and its Committees to coordinate risk oversight, particularly with respect to the interrelationships among various risks.



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PROPOSAL 1—ELECTION OF DIRECTORS

Director Qualifications and Process for Selecting Board Nominees

The Board has delegated to the Governance Committee the responsibility for reviewing and recommending to the Board nominees for director. The Governance Committee annually reviews with the Board the composition of the Board as a whole and recommends, if necessary, steps to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, expertise and diversity, all in the context of an assessment of the needs of the Board and the Company at the time. Board members should possess such qualifications, skills, attributes and experience as are necessary to provide a broad range of personal characteristics, including diversity, leadership and management skills, business experience and industry knowledge. Directors should be able to commit the requisite time for preparation and attendance at regularly scheduled Board and Committee meetings, as well as be able to participate in other matters necessary to ensure good corporate governance is practiced.

In evaluating a director candidate, the Committee considers factors that are in the best interests of the Company and its shareholders, including the knowledge, experience, integrity and judgment of each candidate; the potential contribution of each candidate to the diversity of backgrounds, experience and competencies that the Board desires to have represented; each candidate's ability to devote sufficient time and effort to his or her duties as a director; independence and willingness to consider all strategic proposals; and any other criteria established by the Board, as well as any core competencies or technical expertise necessary to staff Board Committees. The Governance Committee deems it appropriate for at least one member of the Board to qualify as an "Audit Committee Financial Expert" as defined by SEC rules.

The Board does not have a diversity policy, but does include diversity as one of the criteria it considers when evaluating any candidate for the Board. The Board takes into account diversity of experience, skills and background, as well as diversity in race, gender, and culture when considering individual candidates.

The Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination. If any member of the Board does not wish to continue in service or if the Governance Committee decides not to nominate a member for re-election, the Committee then identifies the desired qualifications, skills, abilities and experience of a new nominee in light of the criteria set forth above. Current members of the Board are polled for suggestions as to individuals meeting the criteria described above. The Governance Committee may also consider candidates recommended by management, employees, or others. The Governance Committee may also, at its discretion, engage executive search firms to identify qualified individuals.

The Governance Committee will consider written recommendations for candidates for the Board that are made by shareholders. Recommendations must include detailed biographical material indicating the qualifications the candidate would bring to the Board, and must include a written statement from the candidate of willingness and availability to serve. While recommendations may be considered at any time, recommendations for a specific Annual Meeting must be received in accordance with the provisions outlined in the Bylaws (see page 62). Recommendations should be directed to the General Counsel of the Company, 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

The Governance Committee will consider any candidate recommended in good faith by a shareholder. In evaluating director nominees, the Governance Committee considers the following, among other criteria:

- the appropriate size of the Board;
- the needs of the Company with respect to the particular talents and experience of its directors;
- the qualifications, knowledge, skills, abilities and executive leadership experience of nominees, as well as working experience at the executive leadership level in his/her field of expertise;
- familiarity with the energy/utility industry;



- recognition by other leaders as a person of integrity and outstanding professional competence with a proven record of accomplishments;
- experience in the regulatory arena;
- knowledge of the business of, and/or facilities for, the generation, transmission and/or distribution of electric energy;
- enhance the diversity and perspective of the Board; and
- knowledge of the customers, community, and employee base.

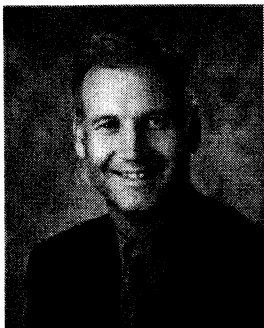
Shareholders may only nominate directors for election at meetings of shareholders in accordance with the procedures set forth in the Company's Bylaws. The Chair of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the Bylaws.

Nominees

Eleven directors are to be elected to hold office for a one-year term, and/or until a qualified successor is elected. The Company's Restated Articles of Incorporation provide for up to 11 directors. The Bylaws currently provide that the number of directors will be fixed from time to time by resolution of the Board, not to exceed 11. The Board has currently fixed the number at 11.

Upon recommendation from the Governance Committee, the Board has nominated Erik J. Anderson, Kristianne Blake, John F. Kelly, Rebecca A. Klein, Scott L. Morris, Michael L. Noël, Mark F. Racicot, Heidi B. Stanley and R. John Taylor to be re-elected as directors for a one-year term to expire at the Annual Meeting of Shareholders in 2013. The Board appointed Donald C. Burke and Rick R. Holley, as directors, effective August 1, 2011 and has nominated Messrs. Burke and Holley to be elected as directors for a one-year term to expire at the Annual Meeting of Shareholders in 2013. The nominees have consented to serve as directors, and the Board has no reason to believe that any nominee will be unable to serve. If a nominee should become unavailable, your shares will be voted for a Board-approved substitute. The Board has concluded that all nominees, with the exception of Mr. Morris, are independent and should serve as directors of the Company in light of the Company's business and structure.

The following has been prepared from information furnished to the Company by the nominees.



ERIK J. ANDERSON

Director since 2000

Mr. Anderson, age 53, has been, since 2002, President of WestRiver Capital, a private investment company, Chairman of Tachyon Networks, Inc., an advanced satellite-based internet solutions company, and vice-Chairman of Montgomery & Co., LLC, an investment bank serving growth companies in technology, media, and healthcare. He is also Chairman of Zula, LLC, a science education company, and a Co-Chair of GEI, a leisure business based on golf entertainment. From 1998 to 2002, Mr. Anderson was Chief Executive Officer of Matthew G. Norton, Co., a private investment company. Prior to 1998, he was Chief Executive Officer of Trillium Corporation. In addition, his experience includes tenures as both a partner at the private equity firm of Frazier & Company, LP, and as a Vice President of Goldman, Sachs & Co. Mr. Anderson is the founder of America's Foundation for Chess. He holds master's and bachelor's degrees in Industrial Engineering from Stanford University and a bachelor's degree (Cum Laude) in Management Engineering from Claremont McKenna College. Mr. Anderson also serves on the board of Ecova, Inc. (Ecova).

Leadership Experience

President and CEO experience with investment, private equity and technology firms.

Financial Experience

Extensive experience with finance matters including mergers and acquisitions, securities and debt offerings, and risk analysis.



KRISTIANNE BLAKE

Director since 2000

Ms. Blake, age 58, has been President of the accounting firm of Kristianne Gates Blake, P.S., since 1987. She has served for 14 years on various boards of public companies and registered investment companies including service as a board chair, Audit Committee chair and Governance Committee member. Ms. Blake is currently serving as board chair for the Russell Investment Company and the Russell Investment Funds. She also serves on the boards of the Principal Funds, Inc., the Principal Variable Contracts Funds, Inc., and Laird Norton Wealth Management. Ms. Blake currently serves as a Regent at the University of Washington. In addition, Ms. Blake serves on the board of Ecova and is the chair of the Ecova Audit Committee.

Leadership Experience

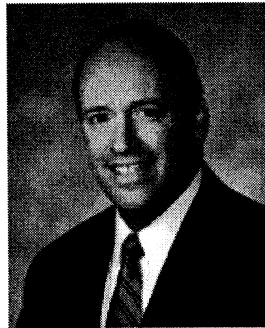
Ms. Blake has outside board experience as a director of public companies and registered investment companies as well as non-profit and university boards and has served on numerous board committees including serving as chair.

Financial Experience

Ms. Blake has an extensive background in public accounting. She was a Certified Public Accountant for 32 years and she worked for 12 years for an international accounting firm.

Community Development

She has extensive involvement in the Spokane community, having served on many non-profit and economic development boards.



DONALD C. BURKE, CPA

Director since 2011

Mr. Burke, age 51, currently serves as an independent trustee to approximately 100 registered mutual funds for the Goldman Sachs mutual fund complex. Prior to assuming this role, from 2006 to 2010, Mr. Burke served as a trustee for numerous global funds that were advised by BlackRock, Inc. From 2006 to 2009, he was a Managing Director of BlackRock and served as the President and Chief Executive Officer of the BlackRock U.S. mutual funds. In this role, Mr. Burke was responsible for all of the accounting, tax and regulatory reporting requirements for over 300 open and closed-end mutual funds. Mr. Burke joined BlackRock in connection with the merger with Merrill Lynch Investment Managers (MLIM), where he took a lead role in the integration of the two firms' operating infrastructures. While at MLIM, Mr. Burke was the Head of Global Operations and Client Services and also served as the Treasurer and Chief Financial Officer of the MLIM mutual funds. He started his career with Deloitte & Touche (formerly Deloitte Haskins & Sells). Mr. Burke is a certified public accountant and received a Bachelor of Science degree in Accounting and Economics from the University of Delaware and a Master of Business Administration in Taxation Degree from Pace University.

Financial Experience

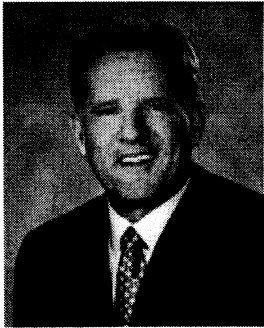
Mr. Burke brings significant financial experience to the board from his years in public accounting and his role as the Treasurer and CFO of numerous mutual funds.

Leadership Experience

Mr. Burke has held a number of leadership roles throughout his career including leading a global operations organization with employees located in four continents.

Board Experience

Mr. Burke has extensive board experience, having served on the audit, compliance, governance & nominating, and contract review committees of various boards. He also serves on the boards of a number of charitable foundations.



RICK R. HOLLEY

Director since 2011

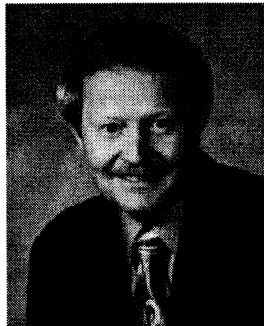
Mr. Holley, age 60, has been the President and CEO of Plum Creek Timber Company, Inc., based in Seattle, Washington, since 1994. He served as the Vice President and CFO at Plum Creek Timber Co. Inc. from April 1985 to December 1993. Prior to joining Plum Creek, Mr. Holley worked for Burlington Northern, Inc. and served as an Assistant Vice President of Corporate Audit from 1983 to 1985. He served on the boards of American Forest & Paper Association, the World Forestry Center and Children's Hospital Foundation in Seattle. Mr. Holley serves as a Member of the Economic Advisory Council at Federal Reserve Bank of San Francisco. He also serves as the Chairman of the National Alliance of Forestland Owners, as a Director of Sustainable Forestry Initiative, Inc., The Seattle Times and Blethen Corporation and as a Trustee of the American Forest Foundation. He completed an advanced education program at Northwestern University and received a Bachelor of Science in Accounting and Business Administration from San Jose State University.

Leadership Experience

Mr. Holley has President and CEO experience, with strategic planning and implementation, mergers and acquisitions, human resources and organization development, government relations, corporate governance and finance experience.

Financial Experience

Mr. Holley has Business Administration and Accounting degrees and has served as Chief Financial Officer of a publicly-traded company.



JOHN F. KELLY

Director since 1997

Mr. Kelly, age 67, is currently the President & Chief Executive Officer of John F. Kelly & Associates, a consulting company he founded in 2004, that is located in Coral Gables, Florida. Mr. Kelly is a retired Chairman, President, and Chief Executive Officer of Alaska Air Group, where he also served as a Board member from 1989 to May 2003. He was Chairman of Alaska Airlines from 1995 to February 2003, Chief Executive Officer from 1995 to 2002, and President from 1995 to 1999. He served as Chairman of the Board of Horizon Air from February 1991 to November 1994, and from February 1995 until May 2003. Mr. Kelly has a BA in Business from the University of Puget Sound, has over 40 years business experience and has been a board member and chair of numerous boards and committees (both profit and non-profit organizations). Mr. Kelly is a former board member of the Dream Foundation. He also serves on the board of Ecova.

Leadership Experience

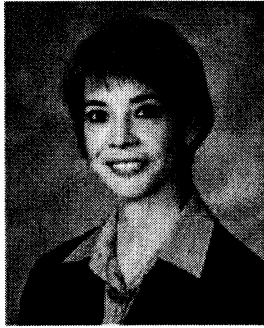
Mr. Kelly has over 35 years of business experience in the airline industry, serving in numerous management capacities, including roles as Chairman, CEO and President. He also brings experience in marketing, sales, corporate governance, compensation, mergers and acquisitions, consulting, and human resources. He currently is President and CEO of a consulting firm.

Business and Association

He has been very involved in the Seattle, Washington business and cultural communities including chairing the Washington Roundtable and other nonprofit Boards.

Board Leadership

His experience and business skills, as well as his open communication style have aided the Board both as a Board and Committee member and in his role as the Lead Director for over four years.


REBECCA A. KLEIN
Director since 2010

Ms. Klein, age 46, is Principal of Klein Energy, LLC, a regulatory and government affairs consulting company. Over the last twenty years she has worked in Washington, DC and in Texas in the energy, telecommunications and national security arenas. Ms. Klein's professional experience also includes service with KPMG Consulting (now Bearing Point). She headed the development of the company's Office of Government Affairs and Industry Relations in Washington, DC. She also served as a Senior Fellow with Georgetown University's McDonough School of Business. Since January 2008, she has served as chair and vice chair of the board of the Lower Colorado River Authority, a public power utility owning generation, transmission, and water services across the central Texas area. In addition, she is chair of Power Across Texas, a non-profit that focuses on advancing information about clean, affordable and reliable energy in the state. Ms. Klein earned a Juris Doctor from St. Mary's University School of Law in San Antonio, Texas. She also holds a Master of Arts in National Security Studies from Georgetown University and a Bachelor of Arts in Human Biology from Stanford University. She is a member of the State Bar of Texas.

Legal and Regulatory Experience

Ms. Klein has a unique blend of legal and regulatory experience. She has served as a commissioner with the Texas Public Utilities Commission and subsequently as its chair. Her areas of legal expertise include energy and telecommunications.

Leadership Experience

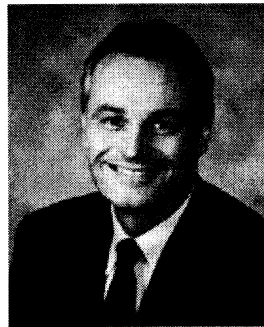
Ms. Klein brings extensive management, human resource, organizational development, and national security experience to the Board.

Government Experience

She has experience in the military and national public policy arenas. She also has lobbying experience at both the state and federal level.

Board Experience

She serves as Vice Chair of the Board of Directors of an energy and water services public utility.


SCOTT L. MORRIS
Director since 2007

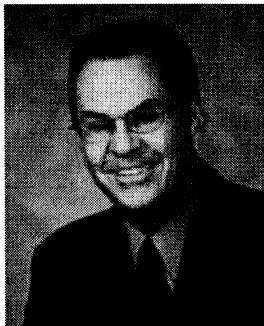
Mr. Morris, age 54, has been Chairman of the Board, President and Chief Executive Officer of the Company since January 2008. From May 2006 to December 2007, he served as the Company's President and Chief Operating Officer. Mr. Morris also serves as Chairman of the Board of the Company's subsidiaries, including Ecova. Mr. Morris has been with the Company since 1981 and his experience includes management positions in construction and customer service and general manager of the Company's Oregon and California utility business. He was appointed as a Vice President in November 2000 and in February 2002 he was appointed as a Senior Vice President. He is a graduate of Gonzaga University and received his master's degree from Gonzaga in organizational leadership. He also attended the Stanford Business School Financial Management Program and the Kidder Peabody School of Financial Management. Mr. Morris serves on the Boards of the Washington Roundtable, Greater Spokane Incorporated, ReliOn, Inc., Gonzaga University, the Western Energy Institute, Edison Electric Institute and American Gas Association, and the Federal Reserve Bank. He has served on a number of Spokane non-profit and economic development Boards.

Industry and Leadership Experience

Mr. Morris has extensive utility experience having spent his entire career in the industry. He brings to the Board a deep knowledge and understanding of the Company and its subsidiaries, having served in a number of management capacities throughout the Company, including President of Utility Operations, managing the Company's Oregon and California gas operations, customer service, and construction areas and CEO of the Company's subsidiary, Ecova. He is the only officer of the Company to sit on the Board and the Ecova board.

Business and Policy Experience

He has experience leading a number of economic development and business association boards. He also serves on the board of the Federal Reserve Bank.


MICHAEL L. NOËL
Director since 2004

Mr. Noël, age 70, is President of Noël Consulting Company, Inc., a financial consulting firm he founded in 1998, located in Prescott, Arizona, that specializes in advising public utility commissions on corporate bond offerings. Mr. Noël spent 30 years as an executive with Edison International, an international electric power company. He served as Senior Vice President and Chief Financial Officer of Edison International, as well as in the same capacity for its Southern California Edison Company subsidiary. Mr. Noël serves on the boards of SCAN Health Plan and the SCAN Foundation, where he is Chair of both Audit Committees. He also serves as a board member and Chair of the Governance Committee for the HighMark family of mutual funds. Mr. Noël is a member of the National Association of Corporate Directors and a named Audit Committee Financial Expert under the Sarbanes-Oxley Act. Mr. Noël earned his master's degree in business management from the University of Southern California, graduating first in his class and Summa Cum Laude. He graduated with a Bachelor's degree in finance, Cum Laude, from California State University, Long Beach.

Governance Experience

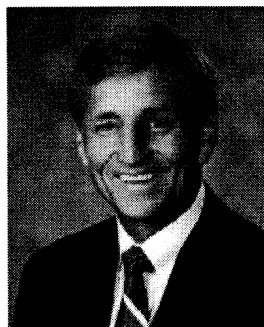
Mr. Noël has governance experience on private and public company boards having served as board chair, as well as chairing compensation, governance and audit committees.

**Industry and
Regulatory Experience**

Mr. Noël brings a unique management and financial perspective to the Board having served as a CFO for a large investor-owned utility. He also has served as an advisor to public utility commissions on financing matters.

Financial Experience

He has spent most of his career in the financial arena and has served as a CFO of a large utility company where he dealt with many of the same financial and regulatory issues that face our Company.


MARC F. RACICOT
Director since 2009

Mr. Racicot, age 63, served as President and Chief Executive Officer of the American Insurance Association from August, 2005 to February, 2009. Prior to that, he was a partner at the law firm of Bracewell & Giuliani, LLP from 2001 to 2005. He is a former governor (1993 to 2001) and attorney general (1989 to 1993) of the state of Montana. Mr. Racicot was nominated by President Bush and unanimously elected to serve as the chairman of the Republican National Committee from 2002 to 2003 prior to assuming the position of chairman of the Bush/Cheney Re-election Committee from 2003 to 2004. He previously served as a director for Siebel Systems, Allied Capital Corporation and Burlington Northern Santa Fe Corporation and presently serves as a director for Plum Creek Timber Company, Massachusetts Mutual Life Insurance Company, and The Washington Companies. In addition, throughout his career, Mr. Racicot has strongly committed himself to children, education and community issues. He was appointed to the board of The Corporation for National and Community Service by President Clinton and has also served on the boards of Carroll College, Jobs for America's Graduates and United Way in Helena, Montana. Mr. Racicot is also a past chairman of America's Promise, where his predecessor was Secretary of State Colin Powell.

**Government and Policy
Experience**

Mr. Racicot has served in a number of elected offices in the state of Montana including that of Governor. He has also had a number of political appointments on both the state and federal level where he was involved in policy development.

**Legal and Regulatory
Experience**

He brings extensive legal and regulatory experience from his military and prosecutorial service, as well as from private legal practice and his elected office as Attorney General of Montana. During his tenure as Governor of Montana, as well as during his time in private practice, he was extensively involved in natural resource, environmental, permitting and energy issues affecting Montana and the nation.

Governance

Mr. Racicot has served on a number of public company boards and chaired a number of board committees.


HEIDI B. STANLEY
Director since 2006

Ms. Stanley, age 55, is co-owner and Chair of Empire Bolt & Screw, Inc., a privately-held international distribution company headquartered in Spokane, Washington. Prior to this, Ms. Stanley had 24 years of experience in the banking industry. She served as Chair of Sterling Savings Bank from January 2009 to October 2009 and Chief Executive Officer from January 2008 to October 2009. From January 2008 to December 2008, she served as Director, Vice Chair, President & Chief Executive Officer. From October 2003 to December 2007, she served as Director, Vice Chair and Chief Operating Officer. Prior to this, she held a variety of leadership positions with increasingly higher levels of managerial responsibility. Ms. Stanley also served as Director of Sterling's Subsidiary Company—INTERVEST Mortgage Investment Company. In 2006 and 2007, she was named one of the "25 Most Powerful Women in Banking" by U.S. Banker Magazine. Prior to joining Sterling in 1985, Ms. Stanley worked for IBM in San Francisco, California and Tucson, Arizona. Ms. Stanley is founding Chair of Greater Spokane Incorporated, former Chair of the Association of Washington Business (AWB), and former Chair of the Spokane Area YMCA. Ms. Stanley currently serves on the Eastern Washington Advisory Board of the Washington Policy Center, AWB Board and co-chairs the Governance Committee of the Spokane Symphony. She is also actively engaged with the Seattle NACD Chapter. Ms. Stanley graduated from Washington State University with a Bachelor of Arts degree in Business Administration.

**Financial and
Banking Leadership
Experience**

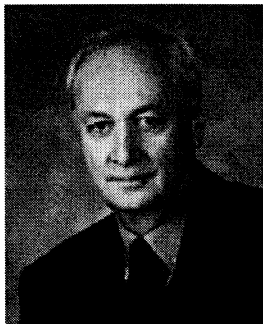
The foundation established from her early years at IBM Corporation, combined with her rise to CEO over a lengthy banking career and exposure as co-owner of a privately-held company, have given Ms. Stanley a diverse business perspective. Specifically, her 24 years of experience in banking management included positions as a Chief Executive Officer, Chief Operating Officer and CEO of a multi-state banking operation. She has experience in operations, risk analysis, policy development, mergers and acquisitions and in the capital markets.

**Business
Associations**

She has served on many industry and business boards and chaired the Association of Washington Business and the American Bankers Association Capital Markets Group.

Community Development

Ms. Stanley has been active in the Spokane area and recently chaired Greater Spokane Incorporated, a regional chamber/economic development organization for Spokane, Washington.



R. JOHN TAYLOR

Director since 1985

Mr. Taylor, age 62, has been the Chairman and Chief Executive Officer of CropUSA Insurance Agency, Inc. since 1999. He has also served as Chairman and Chief Executive Officer of AIA Services Corporation since 1995. Both companies are insurance agencies with operations throughout the United States that place various forms of health, life, crop, and multi-peril insurance to agricultural producers. Mr. Taylor holds similar positions with affiliated companies and subsidiaries of CropUSA and AIA Services. In addition, he is Chairman of Pacific Empire Radio Corporation of Lewiston, Idaho, a fifteen station Northwest radio group. Mr. Taylor is a member of the Board and Chair of the audit committee of the State of Idaho Endowment Fund Investment Board (EFIB). The EFIB manages the financial investments and state endowment funds of the State of Idaho that are generated by timber sales and other revenue of the endowment lands owned by the State of Idaho. The EFIB also manages the financial assets of the State Insurance Fund, the Judge's Retirement Fund, the Ritter Island Endowment Fund, and the Trail of the Coeur d'Alene's Endowment Fund. The Investment Board also manages a Credit Enhancement Program for public school bonds. Members of the EFIB are appointed by the Governor of the State of Idaho. Mr. Taylor is an attorney and has been a member of the Idaho State Bar since 1976.

Leadership Experience

Mr. Taylor has extensive experience as a CEO, President, COO and CFO of many national corporations. His background includes extensive experience in the highly regulated insurance industry, both on a federal and state level, as an agency, insurer and managing general underwriter. For over 30 years, the primary businesses for which Mr. Taylor was responsible focused on the key areas of risk and risk evaluations and the related investment of policy assets derived from the insurance premiums. His executive experience includes hands on experience in personnel, organizational development and growth management for the companies. Since 1997, Mr. Taylor has gained the additional experience as a Director of a billion dollar plus endowment fund for the State of Idaho, which manages the financial assets for the public schools, colleges and other public entities. The Fund also manages the pension assets for the Judges Retirement Funds.

Community Development Experience

Mr. Taylor has been an active member of the Lewiston, Idaho community serving in a number of capacities for community organizations. He is a former member of the Lewiston City Council and has served as a director or board member of several civic, political, and non-profit entities. He is currently a member of the Board of the Idaho Heritage Trust, a statewide organization dedicated to the preservation of historical properties and sites. The work is funded from the investment earnings of royalty fees paid upon the purchase of Idaho automobile license plates.

Political Experience

He has been elected to several positions in the Idaho Republican Party including State Treasurer.

Governance and Legal Experience

Mr. Taylor brings to the Board valuable governance experience on other boards as Board and Audit Committee Chairs as well as his legal experience from his private practice.

The Board recommends a vote "FOR" all nominees for director.



AUDIT COMMITTEE REPORT

In accordance with its written Charter adopted by the Board, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the Company's systems of internal controls, including, without limitation, those established and maintained pursuant to the Exchange Act, as amended, and the Sarbanes-Oxley Act. The Audit Committee also assists the Board in overseeing the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, ethical standards and the independent auditor's qualifications and independence.

The Audit Committee is composed of directors who the Board has determined to be independent, as required by the rules of the NYSE. In 2011, the Audit Committee met eight (8) times.

Prior to the inclusion of the financial statements in the Quarterly Reports on Form 10-Q filed with the SEC, the Audit Committee reviewed the Company's unaudited quarterly financial statements and management's discussion and analysis of financial condition and results of operation for the first three quarters of 2011 and discussed them with management and Deloitte & Touche LLP (Deloitte), the Company's independent registered public accounting firm. The Audit Committee reviewed with the CEO and CFO their certifications as to the accuracy of the financial statements and the establishment and maintenance of internal controls and procedures. It also reviewed with management all earnings press releases relating to 2011 annual and quarterly earnings prior to their issuance.

The Audit Committee reviewed and discussed the Company's audited financial statements and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2011, with management, which has primary responsibility for the financial statements, and with Deloitte, which is responsible as the Company's independent registered public accounting firm for the audit of those statements. Based on its review and discussions, the Audit Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the SEC. The Board approved the recommendation.

The Audit Committee also reviewed Management's Report on Internal Control Over Financial Reporting and the Auditor's Report on the Effectiveness of Internal Control Over Financial Reporting.

The Audit Committee reviewed and discussed with Deloitte all communications required by generally accepted auditing standards, including those promulgated by the Public Company Accounting Oversight Board (PCAOB) and by the SEC and, with and without management present, discussed and reviewed the results of the independent auditor's audit of the financial statements. The Audit Committee also discussed the results of the internal audit examinations, received and reviewed quarterly risk management reports, and received and reviewed annual compliance, technology and business continuity reports.

Deloitte provided the Audit Committee with the written communications required by the PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*. The Audit Committee discussed with Deloitte its internal quality-control reviews and procedures, the results of its external reviews and inspections, and any relationships that might impact its objectivity and independence. The Audit Committee also discussed with management, the internal auditors, and Deloitte, the quality and adequacy of the Company's systems of internal controls, and the internal audit functions, responsibilities, and staffing. The Audit Committee reviewed the audit plans, audit scopes, and identification of audit risks of the independent and internal auditors.

The Audit Committee reviewed and approved Deloitte's services and fees. The Audit Committee also recommended to the Board, after reviewing the performance of Deloitte, its reappointment in 2011 as the Company's independent registered public accounting firm. The Board concurred in such recommendation. The Audit Committee also reviewed and approved the non-audit services performed by Deloitte and concluded that such services were consistent with the maintenance of independence.



The Audit Committee performed the mandated tasks included in its Charter. The Audit Committee also recommended to the Board the continued designation of Michael L. Noël as Audit Committee Financial Expert solely for the purposes of compliance with the rules and regulations of the SEC implementing Section 407 of the Sarbanes-Oxley Act. The Board approved such recommendation.

Members of the Audit Committee of the Board

Kristianne Blake—Chair

Donald C. Burke

Michael L. Noël

Heidi B. Stanley

EXECUTIVE COMPENSATION SUMMARY

This section contains information regarding our compensation programs and policies and, in particular, their application to a specific group of individuals that we refer to as our Named Executive Officers (NEOs). This section is organized as follows:

- **Compensation Discussion and Analysis (CD&A)**—contains a description of the specific types of compensation we pay, a discussion of our compensation policies, information regarding how those policies were applied to the compensation of our NEOs for 2011 and other information that we believe may be useful to investors regarding compensation of our NEOs and other employees.
- **Executive Compensation Summary and Key 2011 Highlights**—provides an executive summary of the major elements of our compensation programs and key changes that were made in 2011.
- **2011 Report of the Compensation Committee**—contains a report of the Compensation Committee regarding the “CD&A” section described above.
- **Executive Compensation Tables**—provides information, in tabular formats specified in applicable SEC rules, regarding the amounts or value of various types of compensation paid to our NEOs and related information.
- **Potential Payments and Other Benefits Upon Termination or Change of Control**—provides information regarding amounts that could become payable to our NEOs following specified events.

The parts of this Executive Compensation section described above are intended to be read together and each provides information not included in the others. In addition, for background information regarding the Compensation Committee and its responsibilities, please see “Committees—Compensation Committee” on page 5.

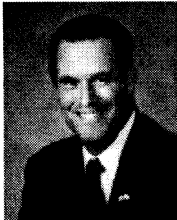


COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

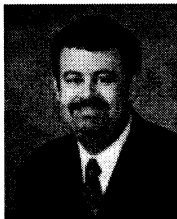
Our report of executive compensation provides an overview of our 2011 performance and related executive-level compensation and includes a description of our executive compensation philosophy, which are the general principles that guide our executive compensation decisions. Within this section we also describe the process that our Compensation Committee uses to set executive compensation. Our NEOs for 2011 are:



Scott L. Morris, Chairman of the Board, President & Chief Executive Officer



Mark T. Thies, Sr. Vice President & Chief Financial Officer



Dennis P. Vermillion, Sr. Vice President and President of Avista Utilities



Marian M. Durkin, Sr. Vice President, General Counsel & Chief Compliance Officer



Karen S. Feltes, Sr. Vice President & Corporate Secretary

We believe in a model of pay-for-performance. Our executive compensation program is designed to align the interests of NEOs with our shareholders and other stakeholders by tying a significant portion of compensation to our Company's performance as measured relative to a variety of predetermined factors during the applicable performance period. As an executive's level of responsibility within our organization increases, so does the



percentage of total compensation that we link to performance, which we believe aligns the interests of our executives who have the highest level of decision-making authority and policy-making functions with the interests of our shareholders and customers.

<u>Name</u>	<u>Base Salary</u>	<u>Annual Cash Incentive</u>	<u>Long-Term Equity Award</u>
CEO	25%	23%	52%
All Other NEOs	36%	22%	42%
All Other Executive Officers	48%	19%	33%

2011 SAY ON PAY

We designed our 2011 executive compensation to provide sufficient fixed compensation, in the form of base salary, to promote retention of our NEOs, and to provide at-risk incentive compensation, in the form of short-term and long-term incentive compensation, to help ensure a focus on operational and financial performance for the benefit of our customers, our Company and our shareholders. We established each individual executive's 2011 base salary and short-term and long-term incentive opportunity based on market compensation survey data and the executive's experience and performance level in that position.

At the May 2011 Annual Meeting, the shareholders approved the Company's non-binding advisory vote on the Company's executive compensation program. The shareholders also voted to have the non-binding advisory vote appear annually in the Company's proxy statement. The Board considered the results of the vote and agreed with the results. Therefore, we are including the non-binding advisory vote on the Company's executive compensation in this year's proxy, and will have annual votes until the next shareholder vote on frequency.

One of the core principles of our executive compensation program is to ensure management's interests are aligned with our shareholders' interests to support long-term value creation. Accordingly, in our 2011 Proxy we provided shareholders the opportunity to vote on our executive compensation program through the Say on Pay proposal. While the vote was advisory, and not binding on our Company, the 94% shareholder approval vote we received sent a signal to management and the compensation committee regarding investor sentiment about our executive compensation philosophy, policies and practices. As a result, the Compensation Committee continued to apply the same effective principles and philosophy it has used in previous years in determining executive compensation and will continue to consider shareholder concerns and feedback in the future. We believe that the information we've provided in this CD&A demonstrates that our executive compensation program is designed appropriately and is working to ensure that our management and NEOs' interests are aligned with our shareholders' interests to support long-term value creation.

In addition to considering the Say on Pay advisory vote, our CFO, Corporate Secretary, and General Counsel proactively solicit input from shareholders regarding our executive compensation program, as well as board and governance matters. We believe this outreach to shareholders, and our shareholders' ability to contact us at any time to express specific views on executive compensation, creates an open dialogue to assure we maintain the consistency and credibility of the program. This dialogue also provides our management team and the Compensation Committee sufficient time to thoughtfully consider and to implement any appropriate changes to our executive compensation program based on feedback and input from various sources.

Our 2011 Performance and NEO Compensation

Our Company has had a long-standing tradition of delivering performance results for our shareholders, customers, and the community. The executive compensation programs have played a material role in focusing our executive team on achieving moderate financial results, maintaining system reliability, and delivering outstanding customer service. The compensation structure also serves as a tool to help motivate, retain, and attract a highly experienced, successful executive team to manage the Company. Our Company is poised to continue its long-standing tradition of excellence and delivering performance.



For the following reasons, we believe that our executive compensation programs are structured in the best manner possible to support our Company and our business objectives, as well as to support our 122-year old culture and traditions:

- Our compensation programs are substantially tied into our key business objectives and the success of our shareholders.
- We continually monitor, and when appropriate, adopt emerging best practices relating to corporate governance of our executive pay programs.
- We closely monitor the compensation programs and pay levels of executives from companies of similar size and complexity, so that we may ensure that our compensation programs are within the range of market practices.

Pay for Performance

The compensation programs are intended to align the NEOs' interests with those of the shareholders by rewarding performance that meets or exceeds the goals the Compensation Committee establishes with the objective of increasing shareholder value. In accordance with the pay for performance philosophy, the total compensation received by the NEOs reflects corporate and operational performance measured against annual and long-term performance goals. The NEOs' total compensation is comprised of a mix of base salary, annual incentive compensation and long-term incentive awards.

The Compensation Committee is responsible for establishing, implementing, and continually monitoring adherence with that compensation philosophy. The Compensation Committee carefully reviews and considers all aspects of the executive compensation programs for fairness, appropriateness, and reasonableness, taking into consideration the Company's economics and relevant practices of comparable companies.

The Compensation Committee closely monitors the compensation programs and pay levels of executives from companies of similar size and complexity, so that we may ensure that our compensation programs are within the range of market practices. The Compensation Committee continually evaluates the various elements of compensation that encourage the right behaviors and that hold management accountable for results. Below, we summarize our 2011 results, the effect those results had on the compensation of our NEOs and certain other changes the Compensation Committee implemented in 2011.

Highlights

- Executive compensation programs have both short and long-term components. In addition to base pay, the Company provides an incentive structure comprised of an annual cash incentive program, restricted stock unit grants that vest over three years, and performance share awards that are tied to the Company's relative total shareholder return over a three-year period.
- The Company's 2011 financial results reflected modest growth compared to 2010. This was primarily due to an increase in earnings at Avista Utilities (due to colder weather during the first quarter and the implementation of general rate increases, partially offset by an increase in other operating expenses, depreciation and amortization, and taxes other than income taxes) and partially due to an increase in earnings at Ecova, as well as a reduction in the net loss from the other businesses. The table below summarizes our 2011 financial results. Please also refer to "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in the Company's Form 10-K for a more detailed description of the 2011 financial results.

	2011	2010	Percentage of Change
Net Income Attributable to Avista Corp.	\$100,224	\$92,425	8.4%
Earnings per Diluted Share	\$ 1.72	\$ 1.65	4.2%
Annual Total Shareholder Return	19.69%	9.52%	N/A
Three Year Total Shareholder Return	52.94%	19.01%	N/A



- Certain components of executive compensation are linked to the Company's financial performance, and the Company's 2011 financial results determined the compensation plan outcomes for 2011.

Annual Incentive Plan

- Earnings per share, for both the regulated and unregulated business operations, represented 60% of the potential short-term incentive award for the 2011 executive officer plan, and utility operating and maintenance costs per customer and four non-financial metrics represented the remaining 40% of the potential short-term incentive award.
- Based on its review of the Company's 2011 performance, the Compensation Committee determined that the Company satisfied, at various levels, all seven 2011 short-term incentive metrics. The Compensation Committee determined that the Company exceeded target performance for Utility EPS and met target performance for Non-Utility EPS. The Company also met the minimum performance level for utility operating and maintenance costs per customer. The Company met all four non-financial metrics: customer satisfaction, reliability, response time and performance excellence. As a result, the Compensation Committee authorized payment of bonuses of 80% of base salary for the CEO, and 54% of base salary for all other NEOs.

Long-Term Incentives

- For performance awards granted in 2009 for the performance period ending December 31, 2011, the Compensation Committee held a special meeting on January 10, 2012 to review and certify the level of achievement of the performance targets, and settle the awards by the issuance of shares to executive officers. The Company's total shareholder return was 57.7% during the performance cycle, which placed the Company at the 53rd percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the other NEOs, received 90% of the target number of units established at the time the award was granted and also received the cash dividend equivalents, which would have been forfeited if the hurdle had not been achieved.
- For 2011, we met the 5.74% Return on Equity (ROE) hurdle for the CEO's restricted stock units for 2011; therefore, the CEO received 1/3 of his restricted stock units and also received the cash dividend equivalents, which would have been forfeited if the hurdle had not been achieved.
- In 2011, the long-term incentive performance award plan was revised to increase the maximum opportunity from 150% for performance at or above the 85th percentile to a 200% opportunity for performance at the 100th percentile to align with current competitive practices within the peer group surveyed by Towers Watson and to align with competitive practice of those utilities within the S&P 400 Utilities Index.
- In February 2011, the Compensation Committee changed how we pay Dividend Equivalent Rights on unvested time-based restricted stock awards. For all awards granted on or after February 3, 2011, dividend equivalents on awards that are subject to either performance-based vesting or time-based vesting will be accumulated and paid to the participant at the time that the awards vest and are paid. If the award is forfeited, then the accumulated dividends would also be forfeited.

Changes to Other Programs

- The Compensation Committee eliminated the use of additional Supplemental Executive Retirement Plan (SERP) service credit as a recruitment tool for all new executive hires. Although this type of pay practice was used in the past as a negotiated recruitment tool, the Compensation Committee recognizes that there have been market changes in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions over the past few years.



Compensation Governance

- The formal recoupment policy, applicable to officer incentive compensation awards, authorizes the Board to recover officer incentive payouts if those payouts are based on performance results that are subsequently revised or restated to levels that would have produced lower incentive plan payouts. The recoupment policy is intended to reduce potential risks associated with our incentive plans, and thus better align the long-term interests of our NEOs and shareholders.
- Our Officer Stock Ownership Guidelines strengthen the alignment of the financial interests of executives with those of shareholders and provide an additional basis for sharing in the Company's success or failure as measured by overall shareholder returns. For 2011, 50% of the officers have met and achieved their set ownership levels based on the guidelines. The other officers are on track to meet the goals.
- The total compensation program does not provide for guaranteed bonuses and has multiple performance measures. Annual cash incentive components focus on both the actual results and the sustainability and quality of those results. The annual incentive plans for employees and executives contain both economic and qualitative components. Several components of the annual incentive plans are focused on achieving earnings targets and cost efficiencies. The plans also focus on maintaining reliability, customer satisfaction levels, response time, and initiatives under Performance Excellence.
- Because the Compensation Committee believes the total compensation program provided to executive officers is fair and market competitive, the Company does not provide any additional benefits in the form of perquisites to the CEO or any other officer.
- The "no-hedging" policy in the Company's insider trading policy states that all directors, NEOs, and other officers are prohibited from hedging the economic interest in the Company shares they hold.
- There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a severance payment only upon the occurrence of both a Change of Control and an adverse impact on the NEO's employment such as involuntary termination or a significant diminution in role or responsibilities. Change of Control Agreements entered into on or after November 2009, do not provide an excise tax gross-up benefit, and all agreements entered into before that date have been modified to eliminate the gross-up if the excise tax could be avoided by reducing an executive's total change of control payments (other than the gross-up) by 10% or less.
- The Company has only two executive employment agreements in place, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation.
- The Compensation Committee has a formalized process to ensure the independence of the executive compensation consultant plus other advisors and reviews and affirms the independence of advisors each year.
- The Compensation Committee, the Chairman and CEO, and the Senior Vice President of Human Resources engage in a talent review process annually to address succession and executive development for the CEO and other key executive positions.

Compensation Philosophy and Objectives

The Compensation Committee's goal has been to design a compensation program that focuses the executives on the achievement of the Company's specific annual, long-term, and strategic goals that align executives' interests with those of shareholders by rewarding performance that maintains and improves shareholder value. The compensation plans allow executives to receive cash bonuses or shares of common stock when specific measurable goals of each plan are achieved. In allocating compensation among these components, the Compensation Committee believes that the compensation of our senior-most levels of management should be weighted toward performance-based compensation, placing a greater portion of their compensation at risk based on achieving goals related to specific items of corporate performance that are likely to produce long-term shareholder and customer value.



Setting Executive Compensation

The Compensation Committee makes all compensation decisions regarding the CEO and other elected officers, including the level of cash compensation and equity awards. The CEO annually reviews the performance of each executive officer and presents his ratings to the Compensation Committee for it to consider with respect to salary adjustments, annual incentive opportunity, and annual equity award amounts. In 2011, the Compensation Committee also reviewed the Company's executive pay practices with the full Board.

The Compensation Committee believes that an effective total compensation plan should be structured to focus executives on the achievement of specific business goals set by the Company and to reward executives for achieving those goals. The Committee regularly evaluates and calibrates the incentive compensation programs to confirm that they are appropriately structured for the Company, that the plans align to the overall strategic goals of the Company, and that they relate to the specific strategies and performance drivers of the Company. The Committee also reviews both short-term and long-term financial scenarios to ensure the plan design does not encourage executives to take excessive risks but also does not discourage appropriate risks.

The Compensation Committee receives regular updates through their advisors, various publications regarding best practices, and market survey data that help to inform the Compensation Committee when making compensation decisions. The Committee also takes into consideration external factors, such as the executive labor market, in order to create a program that is designed to attract, retain, and appropriately motivate the key employees of the Company who drive shareholder value creation over the long term.

The Compensation Committee also has a clear goal to ensure the overall program has a direct link between pay and performance and the right mix between fixed and variable pay. That mix includes:

- base salary;
- short-term performance-based cash incentive compensation;
- long-term equity incentive compensation including:
 - Performance-based Equity Awards;
 - Restricted Stock Units; and
- retirement and other benefits.

The Compensation Committee has established the following key compensation principles to guide the design and ongoing administration of the Company's overall compensation program:

- Clearly identify the specific measures of Company performance that are likely to create long-term value;
- Structure incentive pay programs to reward specified levels of performance on measures designed to help the Company achieve:
 - Shareholder value targets;
 - Earnings per share targets;
 - Relative stock performance levels compared to peers;
 - Customer service targets;
 - Operational targets;
- Promote a safety culture;
- Align elements of the incentive plans among all Company employees and executives;



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- Maintain total compensation at market competitive levels; and
- Provide a range of payout opportunities based on the level of achievement of performance goals.

Competitive Analysis

When determining the types and amounts of compensation to be paid to the NEOs, the Compensation Committee considers it important to provide an overall plan that reflects compensation paid to similarly situated executives of peer companies to maintain a competitive position within the energy/utility industry and to ensure the Company retains—and attracts when necessary—quality employees in key positions to lead the Company. To achieve this objective, the Compensation Committee works with Towers Watson to conduct an annual competitive review of its total compensation program for the CEO and other NEOs. Through the review process the Compensation Committee establishes levels of base salaries, short-term annual incentives, and long-term incentives that are generally targeted to be near the median of the amounts paid by a peer group, based on competitive data gathered by Towers Watson. However, the Compensation Committee can exercise discretion to set any one or more of the components at levels 10% higher or lower than the median depending on an individual's role, responsibilities, and performance within the Company. The Compensation Committee believes this target positioning is effective to attract and retain our executives.

The Compensation Committee annually compares each element of total direct compensation, which includes base salary, annual cash incentives, and the value of long-term incentive grants, against a specific peer group of publicly-traded companies within the energy/utility industry. The companies in the peer group generally recruit individuals who are similar in skills and background to those the Company recruits to fill senior management positions, and are the companies with which Avista competes for executives and for shareholder investment.

Peer Group Companies

In 2011, the Compensation Committee asked Towers Watson to use its Energy Services Executive Compensation database to perform a study of the compensation structure of comparable diversified energy companies with revenues between \$1 billion and \$3 billion to assure the data presented to the Compensation Committee reflected the Company's general size and scope within the market. This sample typically includes approximately 30 companies, the majority of which are investor owned. The sample generally stays very consistent from year to year, unless companies do not participate or fall outside of the revenue range because of acquisitions or other transactions. The advantage of using survey information is that it provides competitive data for all of executive officer positions.

The companies comprising the Compensation Peer Group were:

Areva	Northwest Natural
Black Hills Corp	NorthWestern Energy
Covanta Holdings	OGE Energy
CPS Energy	Oglethorpe Power
DPL Inc	PNM Resources
Energen	Portland General Electric
E On US	Proliance Holdings
First Solar	Regency Energy Partners LP
GenOn Energy	Salt River Project
Hawaiian Electric	Santee Cooper
IDACORP Inc	Southern Union Company
Lower Colorado River Authority	Unisource Energy
Mirant	Vectren
New York Power Authority	Westar Energy
Nicor	


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Other Comparative Data

The Compensation Committee also considers other relevant data to help in its decision making process. They review proxy data on the top five highest paid officers for the companies included in the S&P's 400 Utilities Index, which is the same group that is used to measure relative performance in the Long-Term Incentive Plan (LTIP) (as discussed on page 30). That review includes an evaluation of base salary, annual incentive opportunities, and long-term incentives.

The other comparative group used in the decision making process were also used to measure relative performance in the Long-Term Incentive Plan for the 2008-2010 performance period. The group included all utility companies in the S&P Utilities Index as of December 31, 2010, that were publicly traded as of November 30, 2007. The companies comprising the group were:

AGL Resources, Inc.	IDACORP, Inc.
Alliant Energy Corp.	MDU Resources Group, Inc.
Aqua America, Inc.	National Fuel Gas Co.
Atmos Energy Corp.	NSTAR
Black Hills Corp.	NV Energy, Inc.
Cleco Corp.	OGE Energy Corp.
DPL, Inc.	PNM Resources, Inc.
Dynegy, Inc.	Questar
Energen Corp.	UGI Corp.
Great Plains Energy, Inc.	Vectren Corp.
Hawaiian Electric Industries, Inc.	Westar Energy, Inc.
	WGL Holdings, Inc.

The Compensation Committee also reviews compensation data from other regional peers in an effort to obtain as much intelligence on trends within the region, as well as looking at the overall energy industry. The Compensation Committee uses all of these sources of data to help them make informed decisions about market compensation practices.

Periodically, the Compensation Committee also receives information regarding the competitive levels of health and retirement benefits. The Compensation Committee uses Towers Watson to survey and benchmark these benefit programs offered to employees in similarly situated peer companies within the energy/utility industry.

Performance Management

As mentioned earlier, the Compensation Committee believes in aligning pay with performance. As part of that alignment, all executives receive annual performance reviews by their direct manager and the Compensation Committee reviews the performance ratings of each NEO. The Compensation Committee also reviews the results of the Company's 360-degree survey for each NEO. This is a standardized performance survey conducted every other year that includes feedback from peers within the Company, direct reports, and the direct manager on multiple leadership performance categories.

At the beginning of each calendar year, the CEO creates specific performance targets and goals for his role based on strategic goals set by the Company. The Compensation Committee reviews and approves the CEO's goals at its annual February Committee meeting and presents the goals to the full Board for their information and review. The Compensation Committee quarterly reviews the CEO's performance relative to his targets. At the end of the year, the Compensation Committee reviews the CEO's year-end results as part of its overall CEO annual performance review process.

The CEO's key performance goals for 2011 generally related to strategic planning, financial performance, safety targets, diversified energy resource management, regulatory and legislative matters, succession planning, governance, and customer value delivery.



Allocation Among Compensation Components

The mix of base salary, short-term cash incentive, and equity compensation varies depending on the level of the position held by the executive. The following chart shows the general targets, stated as a percentage of total compensation that the Compensation Committee uses for allocating compensation:

Name	Base Salary	Annual Cash Incentive	Long-Term Equity Award
CEO	25%	23%	52%
All Other NEOs	36%	22%	42%
All Other Executive Officers	48%	19%	33%

In allocating compensation among these components, the Compensation Committee believes that the compensation of our senior-most levels of management—the levels of management having the greatest ability to influence the Company's performance—should be weighted toward performance-based goals, putting a greater portion of their compensation at risk based on achieving specific goals, while levels below senior management should receive a greater portion of their total compensation in base salary that is not at risk. This approach is also consistent with practices of the Compensation Peer Group.

Base Salary

Based on the methodology described below, the CEO and the NEOs are provided with an annual base salary to compensate them for services rendered during the year. Base salary ranges for executive officers are determined according to position and responsibility by using the market data provided by Towers Watson.

The Compensation Committee reviews the base salary of all executive officers at least annually. The factors that influence the Compensation Committee's decisions regarding base salary include: levels of pay among executives in the utility and diversified energy industry, level of responsibilities and job complexity, experience and breadth of knowledge. In setting the annual base salary for the CEO and the NEOs, the Compensation Committee considers the market data provided by Towers Watson. The Compensation Committee also takes into account that each NEO has responsibilities that include both electric and natural gas utility operations, as well as subsidiary operations. In addition, the Compensation Committee recognizes that the Company operates in several states, thereby requiring quality relationships and interaction with multiple regulatory agencies.

2011 Base Salaries

In addition to considering the factors noted above, the Compensation Committee also reviews performance results for the year to determine how the CEO performed against specific metrics and operational goals established at the beginning of the year. For 2011, the Compensation Committee agreed that the CEO had met the established metrics. The Compensation Committee also reviewed all NEOs performance rating to assure they received a "fully meets" or higher rating. The Compensation Committee noted that the current market data showed that several NEOs and the CEO were below market levels of base salary. The Compensation Committee agreed to make adjustments for all NEOs and the CEO. The average pay adjustment for all NEOs other than the CEO was 3.3%, ranging from 1.7% to 6.2%. Mr. Morris received a 6.3% salary increase in 2011 since his salary was below market levels and had not been adjusted since 2008.

Performance-Based Annual Cash Incentive

The 2011 Executive Incentive Compensation Plan was designed to align the interests of senior management with both shareholder and customer interests to achieve overall positive financial performance for the Company. At its November meeting each year, the Compensation Committee considers whether an annual incentive plan should be established for the succeeding year. The Compensation Committee, in partnership with management, sets



clear annual performance objectives for all executives, and measures annual performance against those objectives as stated in the plan. Over the last eight years since the Compensation Committee began using this approach, annual cash incentive payments have averaged 78% of the target amount and ranged from a low of 15% of target to a high of 114% of target. Individual annual cash incentive awards are set as a percentage of base salary. As described more fully below, the actual amounts paid could increase (up to 145% of target) or decrease (as low as 0% of target) depending on the Company's actual performance.



2011 Annual Cash Incentive Target Award Opportunity

The Compensation Committee annually compares annual cash incentive opportunity levels against the Compensation Peer Group. For 2011, based on the information provided by Towers Watson, in order to target cash compensation to the median of the market, the Committee decided to maintain the current target incentive award opportunities of 90% of base salary for the CEO and 60% of base salary for all other NEOs. As part of their decision-making process, the Committee reviewed information that compared the results of the short-term incentive design and the long-term performance share plan with actual shareholder earnings and other components of shareholder return over the past several years.

Annual Cash Incentive Plan Design

In February 2011, the Compensation Committee approved the plan design for the executive performance-based annual cash incentive plan for 2011. A key design element of the 2011 Plan was to closely align the interests of the officers with the interests of the shareholders and customers. These goals are reflected in the 2011 Plan by having 60% of the total incentive payout tied to earnings-per-share (EPS) targets. Of that 60%, utility EPS accounts for 50% and non-utility EPS accounts for the remaining 10%. In addition to the EPS targets, the remaining 40% of the annual incentive opportunity is based on key components of utility operation, including Cost Per Customer, Customer Satisfaction, Reliability Index and two new metrics that align with customer interests. The new Response Time metric balances the focus between our electric and natural gas lines of businesses. The other metric, called Performance Excellence, focuses on the Company's commitment to look for efficiencies in order to keep long term costs reasonable for our customers. These additional operational components balance the Plan in order to align the interests of our executives with shareholders and customers and achieve overall positive financial performance for the Company. Each metric is independent, which allows the Plan to pay a portion of the award to the CEO or NEOs upon the attainment of one goal even if the other goals are not met.

Incentive Components—The incentive components for the executive annual cash incentive plan are based on factors that are essential for the long-term success of the Company, and, with the exception of the earnings per share goals, are identical to performance goals used in the Company's annual incentive plan for non-executive employees. The Compensation Committee believes that having similar metrics for both the executive plan and the non-executive plan encourages employees at all levels of the Company to focus on common objectives.



For 2011, there were two groups of components for the executive annual cash incentive plan—two earnings components and five utility operations components. Those components were:

Earnings Components:

Utility Earnings Per Share (EPS)—Fifty percent of the overall award depended on attaining EPS goals for the utility operations. The actual amount paid, related to the Utility EPS target, could increase (up to 150% of the utility EPS target award) or decrease (as low as 0% of the Utility EPS target award) depending on the Company's actual performance.

Non-Utility Earnings Per Share (EPS)—Ten percent of the overall award depended on attaining EPS goals for the non-utility operations. The actual amount paid, related to the non-utility EPS target, could increase (up to 150% of the Non-utility EPS target award) or decrease (as low as 0% of the Non-utility EPS target award) depending on the Company's actual performance.

Utility Operations Components:

Cost Per Customer—The Operating and Maintenance (O&M) cost is a measure that is directly related to maintaining reliable, cost-effective service levels to run the Company's business efficiently. Twenty percent of the overall award depends on attaining an O&M cost per customer goal. The actual amount paid, related to the O&M target, could increase (up to 150% of the O&M cost target award) or decrease (as low as 0% of the O&M cost target award) depending on the Company's actual performance.

Customer Satisfaction Rating—This rating is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. This survey is used to track satisfaction levels of customers that have had recent contact with our call center or service center. Five percent of the overall award depends on attaining a minimum Customer Satisfaction Rating. Five percent of the overall award depends on attaining a minimum level of reliability, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

Reliability Index (RI)—This measure is derived from the combination of three indices that track average restoration time for sustained outages, average number of sustained outages per customer, and percent of customers experiencing more than three sustained outages during the year. The industry names for the indices are *Customer Average Interruption Duration Index (CAIDI)*, *System Average Interruption Frequency Index (SAIFI)* and *Customer Experiencing Multiple Interruptions (CEMP³)*. Five percent of the overall award depends on attaining a minimum level of reliability, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

Response Time (RT)—This metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. Five percent of the overall award depends on attaining a minimum average response time, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

Performance Excellence (PE)—This metric combines two separate measurements into one, project milestones and realized value from implemented or completed process improvement initiatives. Five percent of the overall award depends on attaining a minimum level of performance, of which 100% will be earned if the metric is met or nothing will be earned if it is not met.

For the first three components, payments are interpolated on a straight-line basis for results between the threshold level and the maximum level.

Setting the Earnings and Utility Operations Incentive Goals—The 2011 cash incentive plan was designed to focus each executive on the Company's strategic financial and operating goals. Continuing to gain financial strength, increasing shareholder value, and maintaining reliable cost-effective service levels to run the business efficiently are all key considerations for the Compensation Committee when setting the goals.



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To determine the Utility and Non-Utility EPS goals for the plan, the Compensation Committee, in conjunction with the Finance Committee and management, considers and incorporates the EPS target range contained in the Company's original publicly disclosed earnings guidance for 2011 (\$1.47 to \$1.62 Utility EPS and \$0.13 to \$0.18 Non-Utility EPS) and reviews this in light of the budgeted EPS numbers (\$1.54 Utility and \$0.16 Non-Utility). For 2011, the Company set threshold, target, and exceeds levels based upon a range as shown in the table below. The earnings targets for 2011 are referred to above in the limited context of the Company's compensation programs for 2011 and should not be understood to be statements of management's expectations or estimates of results of operations or compensation targets for 2012 or any other year.

The O&M Cost Per Customer measure reflects operating efficiency and customer growth. The 2011 cash incentive plan places an emphasis on aggregate utility costs per customer targets to encourage Company-wide teamwork and consistent results. Using an O&M Cost Per Customer measure, the Company calculates the necessary efficiency savings and resulting cost per customer to achieve a 10%, 100% and 150% payout for this portion of the plan.

The customer satisfaction rating measures the customer's overall satisfaction with the service they received during a recent contact with the service center or call center. This measure is widely used in the industry for external reporting. The Company uses a combination of the satisfied and very satisfied ratings, rather than the standard satisfied rating that is typically used. The target was set at 90%, which is based on the current industry and economic environment.

In an effort to balance the Company's focus of reliability between frequency, duration and percentage of customers with three or more outages, three indices were combined into one metric called a Reliability Index. This index combines SAIFI, CAIDI and CEMI³. CEMI³ is a new metric to the utility industry and measures the percentage of customers that experience more than three sustained outages during the year. The Company chose this level of outages over others because industry data received from JD Power's customer service surveys indicate that customers are more apt to be dissatisfied after three outages. To determine our target for the Reliability Index, a separate target was set for each metric (CAIDI – 2 hours and 3 minutes restoration time, SAIFI – 1.43 outages per customer, and CEMI³ – 12.8% of customers experiencing more than 3 sustained outages), they were weighed equally and then combined into one metric. The target was set at 100%, a reasonable stretch based on past experience.

The Response Time metric focuses on customer and public safety while consistently treating customers the same throughout our service territory. The metric represents the percentage of time the Company responds within targeted goals for dispatched natural gas emergency calls. The Company tracks two types of emergency calls: priority 1 calls (blowing gas, explosions and/or fires) and priority 2 calls (inside and outside odors, runaway furnaces, etc.). To determine our target for the Response Time, a separate goal was set for each type of call (priority 1 – 60 minutes to respond and priority 2 – 120 minutes to respond). The target was set at 93%, a reasonable stretch based on past experience.

To help keep customer costs reasonable, the Company created the Performance Excellence metric to demonstrate its commitment to continuously look for efficiencies through process improvement. The metric measures the Company's performance under the Performance Excellence initiatives established at the beginning of the year. Each initiative has established milestones to complete and each has a projected dollar value represented by net present value and/or avoided costs.



The 2011 goals and the performance threshold and relative weight given to each component were:

<u>Incentive Components</u>	<u>Percentage of Cash Incentive</u>	<u>Threshold (50%)</u>	<u>Target (100%)</u>	<u>Exceeds (150%)</u>
Utility Earnings Per Share	50%	\$ 1.52	\$ 1.57	\$ 1.65
Non-Utility Earnings Per Share	10%	\$ 0.13	\$ 0.16	\$ 0.18
Cost Per Customer	20%	\$357.52 ¹	\$346.85	\$341.70
Customer Satisfaction Rating (Satisfied/Very Satisfied)	5%	N/A	Not less than 90%	N/A
Reliability Index (combined CAIDI, SAIPI, & CEMI ³)	5%	N/A	Not less than 100%	N/A
Response Time (percentage of time responded within goal)	5%	N/A	Not less than 93%	N/A
Performance Excellence (milestones and realized value)	5%	N/A	Not less than 100%	N/A

¹ Threshold payout level starts at 10% rather than 50%

2011 Results for the Annual Cash Incentive Plan

After the end of the year, the Compensation Committee assesses the performance of the Company against each objective of the Plan, comparing the actual year-end results to the pre-determined threshold, target, and exceeds levels for each objective, and an overall percentage amount for meeting the objectives is calculated and audited. The results are also reviewed and verified by the Finance Committee.

Based on this review, at its February 2012 meeting the Compensation Committee determined that the Company satisfied, at various levels, all seven metrics. The Compensation Committee determined that the Company exceeded target performance for Utility EPS and met target performance for Non-Utility EPS. The Company exceeded the minimum performance level (threshold) for O&M Cost Per Customer. The Company met all four non-financial metrics: customer satisfaction, reliability, response time and performance excellence. As a result, and at the same meeting, the Compensation Committee authorized payment of bonuses equal to 90.2% of the target level, which resulted in payments of 80% of base salary for the CEO, and 54% of base salary for all other NEOs.

Long-Term Equity Compensation

The Compensation Committee believes that equity compensation is the most effective means of creating a long-term link between shareholder returns and the compensation provided to NEOs and other key management. This program encourages participants to focus on long-term Company performance and provides an opportunity for executive officers and designated key employees to increase their ownership in the Company through grants of Company stock that can be earned based on performance over a three-year cycle. Through the use of long-term performance awards and restricted stock units, the Company is able to compensate executives for sustained increases in the Company's stock performance, as well as long-term growth relative to its peer group for the relevant cycle.

The Company's current Long-Term Incentive Plan (LTIP) authorizes various types of equity awards. As with all the components of executive compensation, the Compensation Committee determines all material aspects of the long-term incentive awards—who receives an award, the amount of the award, the timing of the award, as well as any other aspect of the award it may deem material, such as the impact on the award if employment is terminated for any reason other than retirement, disability or death, and whether the awards are transferable to beneficiaries. The Compensation Committee reviews and approves any grants at their regularly scheduled quarterly meeting each February based upon various factors, including analysis and recommendations from Towers Watson. Board and Compensation Committee meetings, including meetings at which the Compensation Committee grants equity awards to executive officers, are generally scheduled at least a year in advance, and are scheduled without regard to the timing of earnings releases or other major announcements by the Company.



For 2011, we retained the same two forms of long-term equity awards used in 2010, and the same allocations between them, with 25% of the total value of the award delivered through restricted stock units and the remaining 75% through performance-based equity awards. When making decisions for individual executives regarding long-term incentives, the Compensation Committee considers many factors. In addition to competitive market data, the Compensation Committee considers the amount of equity incentives currently outstanding and the number of shares available for future grants under the LTIP. As with the Company's annual cash incentive plan, award opportunities are higher for those executives who have the greatest ability to directly influence overall Company performance.

Performance-Based Equity Awards

The vesting of performance-based equity awards is contingent on Company performance, and no portion of the performance-based equity awards will vest unless the Company achieves at least the threshold level of performance. The performance awards are designed to provide a direct link to the long-term interests of shareholders by assuring that shares will be paid only if the Company attains a specified level of performance relative to our peers over a three-year period. The peer group for performance purposes consists of all companies comprising the S&P 400 Utilities Index as of January 1 at the beginning of the performance cycle. Throughout the course of the three-year performance cycle companies are added or dropped from the index. At the end of the cycle, new companies that were added to the index are included in the rankings as if they had been in the ranking from the beginning, provided there is sufficient trading history to include them in the final calculation. When a company is dropped from the index, everything related to the company is excluded as if it were never on the index. The amount of the payment with respect to any award is determined at the end of the three-year performance cycle based on the Company's percentile ranking compared to the S&P 400 Utilities Index, and is payable at the Compensation Committee's option in either cash or Company common stock, or both. If employment terminates for any reason other than for retirement, death or disability during a performance cycle, all performance-based awards are forfeited. If employment terminates due to retirement, death or disability, the payment amount is still determined at the end of the three-year performance cycle and prorated based on the number of months of active service during the cycle.

Dividend equivalents on performance awards are accumulated and paid to the participant upon vesting if the awards vest and are paid. If the award is forfeited, then the accumulated dividends would also be forfeited.

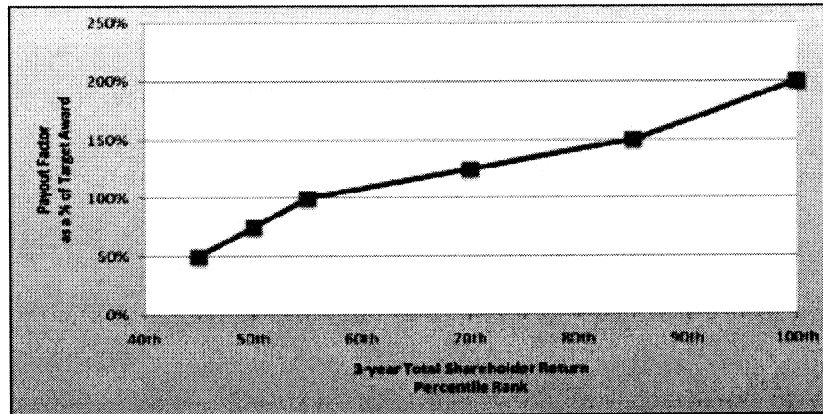
In 2011, the long-term incentive performance award plan was revised to increase the maximum opportunity from 150% for performance at or above the 85th percentile to a 200% opportunity for performance at the 100th percentile. The Compensation Committee increased the maximum opportunity to align with current competitive practices within the peer group based on the market data provided by Towers Watson and to align with competitive practice of those utilities within the S&P 400 Utilities Index.

Range of Performance Award Opportunity

The number of shares of Company common stock actually delivered to executive officers at the end of the three-year cycle can range from 0% to 200% of the target number of shares awarded. If the relative shareholder return is below the 45th percentile of the peer group, participants will not receive any shares at the end of the performance period, and will not receive any cash dividend equivalents. If the Company's total shareholder return (stock price appreciation plus reinvested dividends) is at least at the 45th percentile of the S&P 400 Utilities Index over the performance period, a threshold payout of 50% of the target number of units will be allocated to each individual plus cash dividend equivalents relative to the number of units awarded. To receive 100% of the award, the Company must perform at the 55th percentile among the S&P 400 Utilities Index. NEOs can earn up to 200% of the target number of units if the Company performs at the 100th percentile. Awards are interpolated on a straight-line basis for performance results between threshold and target, between target and the 85th percentile, and between the 85th percentile and the 100th percentile (maximum). For example: if the Company's total shareholder return ranking is in the 75th percentile, the payout would be 133% of target.



The following graph represents the relationship between the Company's relative three-year total shareholder return and the award opportunity:



Relationship Between Avista's Relative Three-Year Shareholder Return and the Award Opportunity

2011 Performance Award Settlement

For performance awards granted in 2009 for the performance period ending December 31, 2011, the Compensation Committee held a special meeting on January 10, 2012 to review, certify, and settle the issuance of shares to executive officers. The Company's total shareholder return was 57.7% during the performance cycle, which placed the Company at the 53rd percentile among the S&P 400 Utilities Index. Based on these results, the CEO and the other NEOs, received 90% of the target number of units of Company common stock associated with the performance award granted in 2009.

With respect to performance awards, the Company accrues quarterly dividends on the target number of units, and dividend equivalents are earned and paid only if the performance grant is approved for payout based on achieving the goals defined in the plan. Therefore, dividend equivalents were paid out in cash to the CEO and the other NEOs on performance awards covered by the 2009 grant.

Restricted Stock Units

The Company awards restricted stock units to provide an incentive to reward retention and growth in the value of our Company common stock. For all NEOs and other executive officers other than the CEO, the vesting of restricted stock units is time-based, and the units vest in three equal annual increments, provided the executive remains employed by the Company on the last day of each year of the three-year period.

Effective for awards granted on or after February 3, 2011, dividend equivalents on time-based restricted stock awards are accumulated and paid to the participant upon vesting if the awards vest and are paid. If the award is forfeited, then the accumulated dividends would also be forfeited. In the past, with respect to awards subject to time-based vesting, the company paid dividends on the awards at the same time the dividends were paid to the company's shareholders.

For the CEO, the restricted stock units vest in three equal annual increments, provided the CEO remains employed by the Company on the last day of each year of the three-year period and the Company has attained the performance targets. In order for any portion of the CEO's restricted stock units to vest, the Company's return on equity (ROE) must exceed a hurdle rate equal to the Company's average cost of debt over the ten years preceding the date on which the award is granted. (Ten years is used because it is close to the average maturity on the Company's debt portfolio.) The hurdle rate for each award is set at the time the award is granted. ROE was selected as a performance measure because it measures the efficient use of equity capital.



Using a ten-year cost of debt, the Compensation Committee determined that a 5.74% ROE hurdle rate was appropriate for 2011. Dividend equivalents accrue on the unvested units and, if the performance targets are met, the dividend equivalents are paid in cash at the same time that the underlying units vest and are paid in shares. Therefore, if the Company does not achieve the minimum ROE performance target, no shares or dividend equivalents are earned. For 2011, the ROE hurdle rate was met; therefore, the CEO received 1/3 of his restricted stock units and cash dividend equivalents.

Fees and Role of the Compensation Consultant

The Compensation Committee has engaged Towers Watson to serve as its outside, independent compensation consultant to assist the Compensation Committee, as requested, to fulfill various aspects of its Charter. Specifically, at the request and direction of the Compensation Committee, Towers Watson assists with the following:

- Surveying pay practices among the peer group, as previously discussed, and providing a broader market perspective;
- Assessing the design of individual pay elements and the total pay program relative to the Company's objectives, market practices and other factors;
- Assisting the Compensation Committee in reviewing compensation recommendations prepared by management; and
- Providing the Compensation Committee with an outside perspective and, as appropriate, specific recommendations on program design.

Towers Watson presents information on current market practices and, as appropriate, provides recommendations for consideration by the Compensation Committee. As provided by its Charter, the Compensation Committee makes all final pay decisions for officers.

Perquisites

Because the Compensation Committee believes the total compensation program provided to executive officers is fair and market competitive, the Company does not provide any additional benefits in the form of perquisites to the CEO or any other officer.

Other Benefits

All regular employees, including the NEOs, are eligible for the Company's defined benefit plan, the Company's 401(k) plan, health and dental coverage, Company-paid term life insurance, disability insurance, paid time off, and paid holidays.

The Company's retirement plan for all employees provides a traditional retirement benefit based on employees' compensation and years of credited service. Earnings credited for retirement purposes represent the final average annual base salary of the employee for the highest 36 consecutive months during the last 120 months of service with the Company.

Supplemental Executive Retirement Plan (SERP)

In addition to the Company's retirement plan for all employees, the Company provides additional pension benefits through the SERP to executive officers of the Company. Details of the SERP benefits and the amounts accrued by each NEO are found in the Pension Benefits section on page 44.

The Compensation Committee believes that the pension plans and the SERP are an important part of the NEOs compensation. These plans are market competitive within the energy/utility industry and serve a critically



important role in the retention of senior executives. As the benefits thereunder increase for each year that these executives remain employed, the plans thereby encourage our most senior executives to remain employed and continue their work on behalf of the shareholders.

The Compensation Committee had previously approved grants of additional years of SERP service credit to two NEOs in an effort to recruit them to join the Company and move to Spokane, Washington. The Committee felt that the grant of additional service was necessary because it helped to recruit the executive to join the Company and acted as a retention tool upon their employment. Although this type of pay practice was used in the past as a negotiated recruitment tool, the Compensation Committee recognizes that there have been market changes in supplemental pension plan design and changes in compensation governance views on the use of supplemental pensions over the past few years. Therefore, the Compensation Committee has decided that in future agreements the Company will not grant additional SERP service credits as a recruitment incentive.

Based on its review of the market for these types of plans, the Committee revised the SERP to align it with the median industry practice. Effective February 4, 2011, the Company adopted a new SERP for eligible employees who first become hired or appointed as executive officers of the Company after February 3, 2011. The new SERP is a "restoration plan," which means that it is designed to offset the effect of certain Code limitations applicable to qualified retirement plans. Those limitations prevent a qualified plan from paying a pension benefit on a participant's base salary above a certain level. A restoration plan provides a pension on that portion of a participant's salary that cannot be taken into account by the qualified plan.

Deferred Compensation

The Company also maintains an Executive Deferred Compensation Plan. All officers can voluntarily participate in this plan on the same terms and conditions as all other eligible employees who reach a set compensation level. This plan is competitive in the market, and provides eligible employees and executives with a tax-efficient savings method. Additional information about this plan, including 2011 contributions and year-end account balances can be found in the Non-Qualified Deferred Compensation table on page 45.

Company Self-Funded Death Benefit Plan

To provide death benefits to beneficiaries of executive officers who die during their term of office, the Company maintains an executive death benefit plan that will provide an executive officer's designated beneficiary with a lump sum payment, equal to twice the executive officer's final annual base salary, payable within thirty days of the executive's death. Prior to January 1, 2008, the plan continued to provide the death benefit to the beneficiaries of executives who died after retirement. Effective January 1, 2008, the post-employment benefit was eliminated for any individual who first became an executive officer after that date. Individuals who were executive officers prior to January 1, 2008 continue to be eligible for the post-retirement death benefit. For officers that are eligible for the post-retirement death benefit, in the event of their death after retirement, pursuant to the Company's qualified retirement plan, their designated beneficiary will receive a lump sum equal to twice the retired executive officer's total annual pension benefit. Amounts payable to the beneficiary of either group are paid from the general assets of the Company. The present value of this benefit for each NEO can be found in the Potential Payment upon Termination or Change of Control Tables starting on page 47.

Supplemental Executive Disability Plan

The Supplemental Executive Disability Plan provides benefits to executive officers of the Company who become disabled during employment. The plan provides a benefit equal to 60% of the executive officer's base annual salary at the date of disability reduced by the aggregate amount, if any, of disability benefits provided for under the Company's Long-Term Disability Plan for employees, workers' compensation benefits, and any benefit payable under provisions of the Federal Social Security Act. Benefits will be payable until the earlier of the executive officer's date of retirement or age 65. The present value of this benefit for each NEO can be found in the Potential Payment upon Termination or Change of Control Tables.



Change of Control and Severance Benefits

In 2011, none of the executive officers had severance benefits, except for termination in connection with a change of control. The Compensation Committee believes it is important to provide protection to our executive officers in the event of a Change of Control. Further, the Compensation Committee believes that the interests of shareholders will be best served if the interests of our executive officers are aligned with them, and that providing Change of Control benefits should eliminate, or at least reduce, the reluctance of our executive officers to pursue potential Change of Control transactions that may be in the best interests of the shareholders. There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a severance payment only upon the occurrence of both a Change of Control, such as involuntary termination, or an adverse impact on the NEOs' employment such as a diminution in role or responsibilities.

Additional information regarding the Change of Control agreements including definitions of key terms and a quantification of benefits that would have been received by the NEOs had termination occurred on December 31, 2011 due to a Change of Control, is found in the Potential Payment Upon Termination or Change of Control tables on page 47.

Elimination of Excise Tax Gross-Up Provision in Change of Control Agreements

In November 2009, the Board decided to eliminate the excise tax gross-up benefit for all new Change of Control agreements entered into on or after November 13, 2009. With respect to Change of Control agreements entered into before that date, the gross-up provisions have been modified to eliminate the gross-up payment if the golden parachute excise tax imposed by Code Sections 280G and 4999 could be avoided by reducing an executive's total change of control payments (other than the gross-up) by 10% or less.

Code Section 162(m)

Code Section 162(m) imposes a \$1 million limit on the amount of compensation paid to a CEO and certain other highly compensated executive officers that a public company may deduct each year as an expense for federal income tax purposes. This limitation does not apply to compensation that qualifies as "performance-based" compensation, which is compensation paid when an individual's performance meets pre-established objective goals based on performance criteria approved by the Company's shareholders. When consistent with the Company's compensation philosophy and objectives, the Compensation Committee intends to structure our compensation plans so that all compensation expense is deductible for tax purposes.

Pre-Set Diversification Plans

The Company and the Compensation Committee have authorized the Company's executive officers to enter into pre-set diversification plans established according to Rule 10b5-1 under the Exchange Act with an independent broker-dealer. These plans include specific instructions for the broker to exercise options or sell stock on behalf of the officer if the Company's stock price reaches a specified level or certain events occur. The officer no longer has control over the decision to exercise or sell the securities subject to the plan. The purpose of such plans is to enable executive officers to recognize the value of their compensation in Company stock during periods in which the officer would be unable to buy or sell Company stock because important information about the Company had not yet been publicly released. Currently, none of the Company's executive officers has such a plan.



COMPENSATION GOVERNANCE MATTERS

Recoupment Policy

The Compensation Committee believes that if the Company is required to prepare an accounting restatement as a result of misconduct or a material error, then incentive payouts based on the original results should be revised. Therefore, in February 2010, the Board adopted a formal recoupment policy applicable to incentive compensation awards. The policy authorizes the Board to recover incentive payouts if those payouts are based on performance results that are subsequently revised or restated to levels that would have produced payouts lower than the original incentive plan payouts. If misconduct or material error results in a restatement of financial results, the Compensation Committee may recommend that the Board either require forfeiture of incentive awards or seek to recover appropriate portions of the executive officer's compensation for the relevant period, in addition to other disciplinary actions that might be appropriate based on the circumstances. The Board, in its discretion, would determine when the need for a clawback is triggered, to whom the clawback would apply and the mechanism for recouping incentive payments.

Stock Ownership Guidelines

The Board has implemented a stock ownership policy for officers of the Company. The policy requires officers to own a percentage of shares based on their position and salary and achieve set ownership levels based on a multiple of salary. The exact multiple depends on the officer's position and salary. The policy requires officers to achieve the required ownership level within five years from the inception of the program in 2010, or from the officer's employment date or the officer's promotion.

The objectives of having a policy are to:

- Strengthen alignment of the financial interests of executives with those of shareholders;
- Enhance executive long-term perspective and focus on shareholder value growth;
- Reinforce "pay at risk" philosophy and provide an additional basis for sharing in Company success or failure as reflected in shareholder returns; and
- Align Company practice with corporate governance best practices.

<u>Amount</u>	<u>Stock That Counts Toward Ownership Requirement</u>	<u>Retention Requirements</u>
<ul style="list-style-type: none"> • CEO—5 times salary • Senior Vice Presidents—2.5 times salary • Vice Presidents—1 times salary 	<ul style="list-style-type: none"> • Direct holdings and family holdings • Shares held in 401(k) • Shares held in the Executive Deferred Compensation Account • Unvested Restricted Stock Units 	Officers must retain 50% of the net shares received upon restricted stock release or issuance of performance shares earned until the ownership level is achieved.

Annually in February, the Compensation Committee reviews the ownership requirements to actuals to assure adherence to the guidelines. The Compensation Committee conducted its annual review to assess that each officer was at or moving towards the required ownership level for their position. Although several officers had not yet met the required ownership level, after review, the Compensation Committee noted that those officers were making appropriate progress towards the required level.

Risk Mitigation Overview

The Compensation Committee believes that the compensation policies and practices of the Company do not create risks that are reasonably likely to have a material adverse effect on the Company. In establishing pay practices for the Company's employees, the goal is to design a compensation structure that does not encourage



inappropriate risk-taking by employees or executive officers. Therefore, enterprise risk management is integral to the overall compensation philosophy. The following features of the compensation structure reflect this approach:

- Each component of the short and long-term plans is either fixed or capped with respect to the payout opportunity; taking excessive risk to benefit one component at the expense of the other components does not result in an unlimited payout.
- The design of the annual cash incentive plan creates a balanced focus on financial results and system sustainability over time which helps to mitigate risky decision-making practices.
- The total compensation program does not provide for guaranteed bonuses and has multiple performance measures.
- The Compensation Committee also reviews both short-term and long-term financial scenarios to ensure the plan design does not encourage executives to take excessive risks but also does not discourage appropriate risks.
- The Company only has executive employment agreements in place with two of the NEOs, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation.
- As detailed earlier we also have Officer Stock Ownership Guidelines in place to strengthen the alignment of the financial interests of executives with those of shareholders and provide an additional basis for sharing in the Company's success or failure as measured by overall shareholder returns.
- The "no-hedging" policy in the Company's insider trading policy states that all directors, NEOs, and other officers are prohibited from hedging the economic interest in the Company shares they hold.
- The formal recoupment policy, applicable to officer incentive compensation awards, authorizes the Board to recover officer incentive payouts if those payouts are based on performance results that are subsequently revised or restated to levels that would have produced lower incentive plan payouts. The recoupment policy is intended to reduce potential risks associated with our incentive plans, and thus better align the long-term interests of our NEOs and shareholders.

CEO Succession Plan

Succession plans for the Company's CEO and other officers are an important part of the Company's long-term success, and the Company has in place a succession-planning process that reflects the Company's long-term business strategy. The Compensation Committee conducts quarterly reviews of the succession plans for the CEO and other executives of the Company. The CEO and the Compensation Committee review those succession plans annually with the full Board. The succession plans reflect the Board's belief that the Company should regularly identify internal candidates for the CEO and other executive positions and that it should develop those candidates for consideration when a transition is planned or necessary. Accordingly, management has identified internal candidates in various phases of development and has implemented development plans to assure the candidates' readiness. Those development plans identify the candidates' strengths and weaknesses and the Compensation Committee receives periodic updates and regularly reviews the candidates' progress. In addition to internal development pools, to assure selection of the best candidate(s), the Company would recruit externally if that approach would better suit the Company's strategic needs. The Compensation Committee believes that our succession planning process provides a good structure to assure that the Company will have qualified successors for its executive officers.

In order to have a fully comprehensive CEO succession plan in place, the Board at its August 2011 session, adopted a Contingency CEO Succession Plan to outline the procedures for the temporary appointment of an Interim CEO and an Interim Chairman of the Board to avoid a vacancy in leadership that may occur because of an absence event due to death, illness, disability, or sudden departure of the CEO.



Compensation Consultant

Towers Watson also assists the Governance Committee with respect to nonemployee director compensation. Pursuant to the Company's written policy governing the other services that the consultant can perform for the Company, the Compensation Committee may authorize Towers Watson to provide services for the Company provided the Compensation Committee determines the work would not compromise the consultant's independence with respect to compensation recommendations to the Compensation Committee.

The Compensation Committee Chair must approve in advance any proposed services to be provided by Towers Watson for the Company.

The Compensation Committee also has the sole authority to retain and terminate the executive compensation consultant.

Towers Watson received \$146,497 in 2011 for executive compensation consulting services and \$219,932 for actuarial consulting services that were unrelated to executive or nonemployee director compensation. The Compensation Committee has assessed the current process that is in place at the Committee level, as well as Towers Watson's internal processes and policies, and based on these structures the Compensation Committee does not believe that Towers Watson's role in providing these services to the Company compromises Towers Watson's ability to provide the Compensation Committee with an objective and independent perspective.

Because the Compensation Committee believes that its executive compensation consultant should be able to render advice to the Committee free of management's influence, the Compensation Committee has processes in place to assure independence. The consultant reports directly to the Compensation Committee on all executive compensation matters; regularly meets separately with the Compensation Committee outside the presence of management; and speaks separately with the Compensation Committee Chair and other Compensation Committee members between meetings, as necessary or as requested by the Compensation Committee.

Interactions between the Towers Watson consultants and management are limited to those that Towers Watson needs in order to provide the Compensation Committee with relevant information and appropriate recommendations. The process also prevents management use of Towers Watson for non-executive compensation-related services without the Compensation Committee's advance knowledge and approval. The Compensation Committee has directed the Towers Watson consultants who work directly with the Compensation Committee to interact with management, only as needed, on behalf of the Compensation Committee.

In addition, Towers Watson separates the executive compensation consulting services provided to the Compensation Committee from services it provides to Company management related to actuarial consulting services. The Towers Watson executive compensation professionals working on executive compensation do not work on other consulting assignments for the Company. Towers Watson confirmed to the Compensation Committee that it has policies and processes in place to preserve its independence when providing executive compensation consulting services to the Compensation Committee and providing other services to the Company. These include the following:

- the individual providing executive compensation consulting services to the Compensation Committee is not personally involved in doing work in any of the other areas in which Towers Watson provides services to the Company;
- the individual providing executive compensation consulting services to the Compensation Committee does not share information about the specific work done on behalf of the Compensation Committee with other Towers Watson staff providing assistance to the Company on other engagements; and
- the individual providing consulting services to the Compensation Committee is not directly compensated for increasing the total revenues that Towers Watson generates from the Company or expanding the range of services that Towers Watson provides to the Company.



The Compensation Committee determines the work to be performed by the consultant. The consultant works with management to gather data required in preparing the consultant's analyses for Compensation Committee review.

Specifically, the consultant provides the Compensation Committee with market trend information, data, and recommendations to enable the Compensation Committee to make informed decisions and to stay abreast of changing market practices. In addition, the consultant provides analysis on the alignment of pay and performance and assists in the process of preparing disclosure such as the CD&A.

While it is necessary for the consultant to interact with management to gather information and obtain recommendations, the Compensation Committee Chair governs if and when the consultant's advice and recommendations can be shared with management. Ultimately, the consultant provides recommendations and advice to the Compensation Committee in an executive session without Company management present, which is when critical pay decisions are made. This approach ensures the Compensation Committee receives objective advice from the consultant so that it may make independent decisions about executive pay.

Compensation Committee Report

The Compensation Committee of the Board has reviewed and discussed the CD&A with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the CD&A be included in our Annual Report on Form 10-K and in this proxy statement.

Members of the Compensation & Organization Committee of the Board

John Taylor—Chair

Rebecca Klein

Michael Noël

John Kelly

Compensation Committee Interlocks and Insider Participation

There are no "Compensation Committee interlocks" or "insider participation" relationships which SEC regulations or NYSE listing standards would require to be disclosed in this proxy statement.

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table—2011(1)

Name and Principal Position	Year	Salary (2)	Stock Awards (3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension and Non-Qualified Deferred Compensation Earnings (5)	All Other Comp. (\$) (6)	Total Compensation (7)
S. L. Morris	2011	\$662,307	\$1,356,481	\$ 537,363	\$ 890,122	\$ 49,273	\$ 3,495,546
Chairman of the Board,	2010	\$630,001	\$1,033,920	\$ 627,669	\$ 906,969	\$ 47,408	\$ 3,245,967
President & Chief Executive Officer	2009	\$630,001	\$1,112,983	\$ 582,026	\$ 691,983	\$ 11,025	\$ 3,028,018
M. T. Thies	2011	\$341,153	\$ 331,268	\$ 184,530	\$ 77,386	\$ 11,025	\$ 945,362
Sr. Vice President & Chief Financial Officer	2010	\$323,077	\$ 252,630	\$ 215,865	\$ 52,163	\$ 11,025	\$ 854,760
	2009	\$314,998	\$ 271,763	\$ 194,009	\$ 43,163	\$ 7,301	\$ 831,234
D. P. Vermillion	2011	\$304,039	\$ 331,268	\$ 164,455	\$ 301,136	\$ 13,413	\$ 1,114,311
Sr. Vice President & Environmental Compliance Officer	2010	\$298,078	\$ 252,630	\$ 199,260	\$ 233,354	\$ 13,015	\$ 996,337
	2009	\$289,230	\$ 157,000	\$ 148,843	\$ 126,256	\$ 12,600	\$ 733,929
M. M. Durkin	2011	\$288,655	\$ 331,268	\$ 156,133	\$ 123,624	\$ 11,025	\$ 910,705
Sr. Vice President, General Counsel & Chief Compliance Officer	2010	\$281,463	\$ 252,630	\$ 187,969	\$ 97,364	\$ 11,025	\$ 830,451
	2009	\$274,999	\$ 271,763	\$ 169,373	\$ 63,930	\$ 11,025	\$ 791,090
K. S. Feltes	2011	\$253,654	\$ 372,722	\$ 137,201	\$ 186,846	\$ 11,025	\$ 961,448
Sr. Vice President & Corporate Secretary	2010	\$246,461	\$ 288,270	\$ 164,722	\$ 153,540	\$ 11,025	\$ 864,018
	2009	\$240,001	\$ 271,763	\$ 147,816	\$ 88,402	\$ 11,025	\$ 759,007



- (1) This table summarizes the compensation paid to, granted to, or earned by each of our NEOs for each of the last three fiscal years.
- (2) Amounts earned in the applicable year; includes regular pay, paid time-off and holiday pay. The total amounts shown in this column also include any amounts that an NEO elected to defer in accordance with the Executive Deferred Compensation Plan. (See the "Non-Qualified Deferred Compensation" table on page 45 to find out which NEOs elected to defer compensation during 2011 and how much they deferred.)
- (3) Values shown represent the aggregate grant date fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 "Compensation—Stock Compensation" for restricted stock units and performance awards granted in each of the years reported. Assumptions used in the calculation of these amounts are included in Note 20 of the Company's audited financial statements for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K filed with the SEC. In the case of performance share awards, the amounts reported in the Stock Awards column represent the aggregate grant date fair value of the target number of units that may become vested if the applicable performance criteria are satisfied, and computed in accordance with ASC 718. The aggregate grant date fair value for the target number of units was calculated by using a Monte Carlo simulation, which produces a probable value for the awards. Performance stock awards will vest at the end of the vesting term, however the number of shares delivered will vary based upon the attained level of performance and may range from 0 to 2.0 times (for awards granted prior to 2011 – range is from 0 to 1.5 times) the number of units awarded. For the 2011 grant, if the maximum level of performance is achieved and using the closing stock price of \$25.75 as reported on December 30, 2011 to calculate the value and add the dividend equivalents using an annual amount of \$1.10 per share as declared in 2011 multiplied by three years, then the value of the payouts would be: Mr. Morris – \$2,986,340; Mr. Thies – \$726,250; Mr. Vermillion – \$726,250; Ms. Durkin – \$726,250; and Ms. Feltes – \$726,250.
- (4) Annual short-term cash incentive awards paid in 2012 that were earned by NEOs for 2011 performance in accordance with the Executive Incentive Compensation Plan.
- (5) The change in pension amounts for each NEO is the difference between the December 31, 2011 and December 31, 2010 present values of the accrued benefit at normal retirement age (the earliest age at which retirement benefits may be received by the NEO without any reduction in benefits). The increase in the value of pension benefits is due to one additional year of service, higher final average earnings, the passage of time, and changes in interest and mortality assumptions for calculating present values. The present value as of December 31, 2011 utilizes the RP2000 mortality table projected to 2012 for males and females and a 5.05% discount rate for the Retirement Plan and a 4.80% discount rate for the SERP Plan. There were no above-market earnings for the Company's Executive Deferred Compensation Plan.
- (6) The Company does not provide perquisites or other personal benefits to its NEOs.
- (7) Includes employer matching contributions under both the Executive Deferred Compensation Plan and the Investment and Employee Stock Ownership Plan (401(k) plan). The Company makes matching contributions on behalf of all its employees who make regular contributions of their wages, salary, cash incentive, and overtime to the 401(k) plan during the plan year. The Company matching contribution to the 401(k) plan is equal to \$0.75 for every \$1.00 of regular employee contributions up to a maximum 6% of compensation. The Company matching contribution under the Executive Deferred Compensation Plan is equal to \$0.75 for every \$1.00 contributed up to a maximum of 6% of the executive's base pay less the maximum contribution allowed under the 401(k) plan assuming the participant has contributed the maximum allowed by law. The All Other Compensation amounts for 2011 are shown in the following table:

Name	Executive Deferred Compensation Plan Company Match	Investment and Employee Stock Ownership Plan (401(k) plan)	One Leave (Cash Outs)	Total All Other Compensation
		Company Match		
Morris		\$ 11,025	\$ 38,248	\$ 49,273
Thies		\$ 11,025		\$ 11,025
Vermillion	\$ 2,388	\$ 11,025		\$ 13,413
Durkin		\$ 11,025		\$ 11,025
Feltes		\$ 11,025		\$ 11,025



Grants of Plan-Based Awards—2011

Name	Grant Date(1)	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Future Payouts Under Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or Units (#)(5)	Grant Date Fair Value of Stock and Option Awards \$(6)
		Threshold	Target	Maximum	Threshold (#)	Target (#)	Maximum (#)		
S. L. Morris									
Annual Cash Award	02/03/11	313,560	603,000	844,200					
Performance Award	02/03/11				25,700	51,400	102,800		1,068,606
Restricted Stock Units (4)	02/03/11					12,500	12,500		287,875
M. T. Thies									
Annual Cash Award	02/03/11	107,640	207,000	289,800					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							3,100	71,393
D. P. Vermillion									
Annual Cash Award	02/03/11	95,160	183,000	256,200					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							3,100	71,393
M. M. Durkin									
Annual Cash Award	02/03/11	90,480	174,000	243,600					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							3,100	71,393
K. S. Feltes									
Annual Cash Award	02/03/11	48,960	153,000	214,200					
Performance Award	02/03/11				6,250	12,500	25,000		259,875
Restricted Stock Units	02/03/11							4,900	112,847

- The grant date is the date the Compensation Committee and/or the Board approves the grant of performance awards, restricted stock units or non-equity incentive awards.
- Potential annual incentive cash awards granted to NEOs for 2011 performance in accordance with the Executive Incentive Compensation Plan. The amounts actually paid to NEOs for 2011 performance appear in the Non-Equity Incentive Plan column of the Summary Compensation Table. See the CD&A for further explanation.
- Performance share awards are granted under the LTIP and will vest over a three-year period. The number of units earned at the end of the three-year period depends on the level of performance achieved. See the CD&A for further explanation.
- In 2011, Mr. Morris was awarded restricted stock units that vest over a three-year period—each year 1/3 of the units vest and shares are issued provided Mr. Morris is employed on the last day of the year and the Company achieves the minimum annual ROE performance target established for that year. Dividend equivalents accrue on the unvested units and, if the performance targets are met, the dividend equivalents are paid in cash at the same time that the underlying units vest and are paid in shares. Therefore, if the Company does not achieve the annual ROE performance target, no units or dividend equivalents are earned. See the CD&A for further explanation.
- In 2011, the NEOs, other than Mr. Morris, were awarded restricted stock units that vest over a three-year period—each year 1/3 of the units vest and shares are issued on an annual basis provided the NEO is employed on the last day of the vesting period. Dividend equivalents accrue on the unvested units and, if the NEO is employed on the last day of the vesting period, the dividend equivalents are paid in cash at the same time that the underlying units vest and are paid in shares. Therefore, if his or her employment ends prior to the last day of the vesting period, no units or dividend equivalents are earned.
- Amounts shown in this column are calculated in accordance with FASB ASC Topic 718 “*Compensation—Stock Compensation*” and represent the grant date fair value of the target award that could be earned. Assumptions used in the calculation of these amounts are included in Note 20 of the Company’s audited financial statements for the year ended December 31, 2011 included in the Company’s Form 10-K filed with the SEC on February 28, 2012. The aggregate grant date fair value for the target number of units was calculated by application of a Monte Carlo model, which resulted in a fair value per share lower than the closing price per share on the grant date.

Employment Agreements

The Company currently does not have employment agreements with its NEOs, with the exception of Ms. Durkin and Mr. Thies. Please refer to the CD&A beginning at page 18 for a discussion of the provisions that relate to the grant of additional service credit for pension purposes, and to the “Potential Payments Upon Termination or Change of Control” discussion at page 46, for a discussion of the change in control provisions, including the recent modification to the golden parachute excise tax gross-up provisions.



Outstanding Equity Awards at Year-End—2011

Name	Date of Grant	Option Awards			Stock Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Option Exercise Price \$(2)	Option Expiration Date(3)	Number of Shares or Units of Stock that Have Not Vested (#)(4)	Market Value of Shares or Units of Stock That Have Not Vested \$(5)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Rights That Have Not Vested(6)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Rights That Have Not Vested \$(6)
S. L. Morris	11/07/2002	26,250	\$ 10.17	11/07/2012				
S. L. Morris	02/11/2010						51,400	\$ 661,775
S. L. Morris	02/11/2010						4,166	\$ 107,275
S. L. Morris	02/03/2011						51,400	\$1,323,550
S. L. Morris	02/03/2011						8,333	\$ 214,575
M. T. Thies	02/11/2010						12,500	\$ 160,938
M. T. Thies	02/11/2010				1,033	\$ 26,600		
M. T. Thies	02/03/2011						12,500	\$ 321,875
M. T. Thies	02/03/2011				2,066	\$ 53,200		
D. P. Vermillion	02/11/2010						12,500	\$ 160,938
D. P. Vermillion	02/11/2010				1,033	\$ 26,600		
D. P. Vermillion	02/03/2011						12,500	\$ 321,875
D. P. Vermillion	02/03/2011				2,066	\$ 53,200		
M. M. Durkin	02/11/2010						12,500	\$ 160,938
M. M. Durkin	02/11/2010				1,033	\$ 26,600		
M. M. Durkin	02/03/2011						12,500	\$ 321,875
M. M. Durkin	02/03/2011				2,066	\$ 53,200		
K. S. Feltes	02/11/2010						12,500	\$ 160,938
K. S. Feltes	02/11/2010				1,633	\$ 42,050		
K. S. Feltes	02/03/2011						12,500	\$ 321,875
K. S. Feltes	02/03/2011				3,266	\$ 84,100		

- (1) Stock options were granted from 1998 to 2002. In 2003, the Compensation Committee discontinued awarding stock options to employees and NEOs. Options vested over a four-year period with 25% of the award vesting each year. In November 2006, the last options granted in 2002 vested based on the four-year vesting period and became exercisable. These options will expire November 2012.
- (2) Option exercise price is based on the average of the high and low stock price on the date of grant.
- (3) Options have a term of ten years from the grant date.
- (4) Number of restricted stock units that remain unvested as of December 31, 2011. (Restricted stock units vest over a three-year period—1/3 of the units vest and are issued on an annual basis.)
- (5) Market value of restricted stock units is based on the closing stock price (\$25.75) as reported on December 30, 2011.
- (6) Performance awards reflect the number of units granted at the target performance level. The market value is based on the closing stock price (\$25.75) as reported on December 30, 2011. The value for the 2010 Performance Share award is shown at the threshold level (50%) based on results (less than threshold) for the first two years of the 2010-2012 performance period. The value for the 2011 Performance Share awards are shown at the target performance level (100%) based on results (target level) for the first year of the 2011-2013 performance period. The NEOs earned a performance share payout for the 2009-2011 performance period. As a result, those performance shares are shown on the Option Exercises and Stock Vested table below.


Option Exercises and Stock Vested — 2011

Name	Option Awards		Stock Awards (1) (2)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
S. L. Morris			46,260(1)	\$1,301,294
S. L. Morris			4,166(3)	112,190
S. L. Morris			4,167(3)	116,800
S. L. Morris			4,167(3)	121,384
S. L. Morris	20,000(3)	\$ 27,350		
M. T. Thies			11,250(1)	\$ 316,463
M. T. Thies			1,033(2)	27,560
M. T. Thies			1,033(2)	28,697
M. T. Thies			1,034(2)	29,860
D. P. Vermillion			6,300(1)	\$ 177,219
D. P. Vermillion			666(2)	17,769
D. P. Vermillion			1,033(2)	28,697
D. P. Vermillion			1,034(2)	29,860
M. M. Durkin			11,250(1)	\$ 316,463
M. M. Durkin			1,033(2)	27,560
M. M. Durkin			1,033(2)	28,697
M. M. Durkin			1,034(2)	29,860
K. S. Feltes			11,250(1)	\$ 316,463
K. S. Feltes			1,033(2)	27,560
K. S. Feltes			1,633(2)	45,365
K. S. Feltes			1,634(2)	47,188

- (1) Performance shares—Performance at the 53rd percentile for total shareholder return against companies included in our peer group resulted in a distribution of 90% of the initial units granted in 2009 for the 2009-2011 performance period. The NEOs received shares and cash dividend equivalents since total shareholder return fell slightly below target level. Value is based on the closing stock price (\$25.22) as reported on January 10, 2012, the day the Compensation Committee certified that the performance target was met. Dividend equivalents were paid in cash at \$2.91 per share based on the number of shares received.
- (2) The NEOs were granted restricted stock units in 2009, 2010 and 2011, of which 1/3 vests each year based on their employment on December 31. Therefore, one-third of each grant was vested. The NEOs received the last 1/3 of their units granted in 2009 and 1/3 of their units granted in 2010 and 2011. Value is based on the closing stock price (\$25.58) as reported on January 3, 2012, the day on which the shares were actually delivered to the recipient. Dividend equivalents were paid in cash at the same time that the underlying units vested and were paid in shares.
- (3) Mr. Morris was granted restricted stock units in 2009, 2010 and 2011, of which 1/3 vests each year based on Mr. Morris' employment on December 31 and the Company achieving a minimum ROE performance target. The performance target for the 2009, 2010 and the 2011 grant was 6.19%, 6.05% and 5.74%, respectively. The performance target was achieved (8.67%) for all three grants. Therefore, one-third of each grant was released. Value is based on the closing stock price (\$25.83) as reported on February 2, 2012, the day the Compensation Committee certified that the performance target was met. Dividend equivalents were paid in cash at the same time that the underlying units vested and were paid in shares.



Pension Benefits—2011

The table below reflects benefits accrued under the Retirement Plan for Employees and the SERP for the NEOs. The Company's Retirement Plan for Employees provides a retirement benefit based upon employees' compensation and years of credited service. The retirement benefit under the Retirement Plan is based on a participant's final average annual base salary for the highest 36 consecutive months during the last 120 months of service with the Company. Base salary for the NEOs is the amount under "Salary" in the Summary Compensation Table.

The SERP provides additional pension benefits to executive officers of the Company, who have attained the age of 55 and a minimum of 15 years of credited service with the Company. The plan is intended to provide benefits to executive officers whose pension benefits under the Company's Retirement Plan are reduced due to the application of limitations on qualified plans under the Code and the deferral of salary pursuant to the Executive Deferred Compensation Plan. When combined with the Retirement Plan, the plan will provide benefits to executive officers, who retire at age 62 or older, of 2.5% of the final average annual base salary during the highest 60 consecutive months during the last 120 months of service for each credited year of service up to 30 years. When combined with the Retirement Plan, the plan will provide higher benefits to the CEO, if he retires on or after age 65, of 3% of final average base salary during the highest 60 consecutive months during the last 120 months of service for each credited year of service up to 30 years. Benefits will be reduced for executives who retire before age 62. Reductions are either 4% or 5% for each year of retirement before age 62 as prescribed in the Retirement Plan.

Name	Plan Name	Number of Years Credited Service (#)(1)	Present Value of Accumulated Benefit (\$)	Payments During Last Year (\$)
S. L. Morris	Retirement Plan	30.17	\$ 1,286,753	\$ 0
	SERP—pre 2005(2)	23.17	\$ 121,569	\$ 0
	SERP 2005+(3)	30.00	\$ 3,104,343	\$ 0
M. T. Thies (4)	Retirement Plan	3.25	\$ 61,738	\$ 0
	SERP—pre 2005(2)	NA	NA	\$ 0
	SERP 2005+(3)	3.25	\$ 110,974	\$ 0
D. P. Vermillion	Retirement Plan	23.83	\$ 809,957	\$ 0
	SERP—pre 2005(2)	16.83	151,303	\$ 0
	SERP 2005+(3)	23.83	\$ 507,028	\$ 0
M. M. Durkin (5)	Retirement Plan	6.42	\$ 202,548	\$ 0
	SERP—pre 2005(2)	NA	NA	\$ 0
	SERP 2005+(3)	6.42	\$ 234,336	\$ 0
K. S. Feltes	Retirement Plan	13.67	\$ 523,572	\$ 0
	SERP—pre 2005(2)	6.67	\$ 0	\$ 0
	SERP 2005+(3)	13.67	\$ 345,949	\$ 0

- (1) SERP participants are limited to a maximum of 30 years of credited service under the SERP no matter how many years of service they actually have with the Company. This column represents benefit service.
- (2)(3) Effective January 1, 2005 the SERP was modified to comply with requirements of Code Section 409A. This plan is noted as SERP 2005+. The plan prior to this date, SERP pre-2005, was grandfathered and is not subject to these requirements. SERP pre-2005 benefits were frozen as of December 31, 2004.
- (4) After ten years, Mr. Thies will receive a "two for one" credit for vesting service for each completed year of full-time service from year ten through year 12 (employment service). His ten-year employment anniversary triggers commencement of the additional vesting service credit. There is no "two for one" credit prior to completion of his tenth year of employment or after completion of his twelfth year of employment.
- (5) After five years, Ms. Durkin began to receive a "two for one" credit for vesting service for each completed year of full-time service from year six through year ten (employment service). Her five-year employment anniversary triggered commencement of the additional vesting service credit. There is no "two for one" credit after completion of her tenth year of employment.



Non-Qualified Deferred Compensation Plan—2011

The following table shows the non-qualified deferred compensation activity for the NEOs accrued through December 31, 2011:

Name	Executive Contributions in Last Year (\$)(1)	Company Contributions in Last Year (Company Match) (\$)(2)	Aggregate Earnings in Last Year (\$)(3)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Year-End (\$)
S. L. Morris	\$ 0	\$ 0	\$ -16,400	\$ 0	\$ 293,539
D. P. Vermillion	\$ 2,000	\$ 2,388	\$ -50,983	\$ 0	\$ 1,228,824

- (1) Eligible employees may elect to defer up to 75% of their base annual salary, up to 100% of their annual bonus. This column represents deferrals of this compensation during the last year. See the Summary Compensation Table on page 39 for further explanation.
- (2) The Company matching contribution under the Executive Deferred Compensation Plan is equal to \$0.75 for every \$1.00 contributed up to a maximum of 6% of the executive's base pay less the maximum contribution allowed under the 401(k) plan assuming the participant has contributed up to the limit set forth in Code Section 402(g) for the plan year.
- (3) Earnings reflect the market returns of the NEOs' respective investment allocations. The earnings accrued for deferred compensation are determined by actual earnings of Avista common stock and selected mutual funds. None of the earnings are included as compensation on the Summary Compensation Table since none are above market earnings. The Compensation Committee selects the mutual funds that are available for investment under the plan, and the participants may allocate their accounts among these investments, including Avista common stock. The mutual funds currently available include the following:

Fund	Ticker Symbol	One Year Return as of 12/31/11
American Funds EuroPacific Growth	RERFX	-13.33%
Aston Montag & Coldwell Growth I	MCGIX	3.37%
Avista Common Stock	AVA	9.51%
American Beacon Large Cap Val	AADEX	-2.34%
PIMCO Total Return	PTTRX	4.16%
RS Investments Partners	RSPFX	-7.59%
TCM Small Cap Growth	TCMSX	-7.52%
T. Rowe Price Mid Cap Growth	RPMGX	-1.21%
T. Rowe Price Personal Strategy Balanced	TRPBX	-0.21%
Vanguard Short Term Treasury	VFISX	2.26%
Vanguard Total Bond Market Index	VBTSX	7.69%
Wells Fargo Advantage Index	WFIOX	1.90%
Wells Fargo Cash Investment Money Market	WFIXX	0.07%



Potential Payment Upon Termination or Change of Control

The Company has Change of Control agreements with all of the NEOs. The cash components are paid in a lump sum and are based on a multiple of base salary. There are no Change of Control agreements that exceed three times base salary and bonus. The Change of Control agreements all have double triggers that provide for a severance payment only upon the occurrence of both a Change of Control and an adverse impact on the NEOs' employment.

Specifically, the NEOs receive payments only if, in connection with a Change of Control, the executive officer's employment is terminated involuntarily by the Company or voluntarily by the officer for good reason. Good reason includes assignment of any duties inconsistent with the executive officer's position, authority, duties or responsibilities or any other action which results in a material diminution in such position, authority, duties or responsibilities or material diminution in the executive's base annual salary, or requiring the executive officer to be based at any location over 50 miles from the location the executive officer was assigned to preceding the Change of Control.

The agreements also provide compensation and benefits to the NEOs during employment following a Change of Control of the Company. Pursuant to the terms of the agreements, during the two or three years following a Change of Control of the Company, an NEO will receive an annual base salary equal to at least 12 times the highest monthly base salary paid to such executive officer in the 12 months preceding the Change of Control. In addition, each NEO will receive an annual bonus at least equal to such executive officer's highest bonus paid by the Company under the Company's Annual Incentive Compensation Plan for the three years preceding the Change of Control (the Recent Annual Bonus). If employment is terminated by the Company without cause or by such executive officer for good reason during the first three years after a Change of Control, the executive officer will receive a payment equal to the sum of: (i) the earned but unpaid base salary due to such executive officer as of the date of termination; (ii) a proportionate annual bonus due to such executive officer for the portion of the year worked prior to the termination, based on the higher of the Recent Annual Bonus and the NEO's annual bonus for the last year (the Highest Annual Bonus); and (iii) a lump sum payment equal to two or three times the sum of the NEO's annual base salary (depending on executive's level) and the Highest Annual Bonus. The NEO will also receive all unpaid vacation pay, may continue to receive employee welfare benefits for up to a three-year period from the date of termination, and may receive outplacement assistance.

Prior to November 2009, our change of control agreements provided that if any payments to the NEO would be subject to the excise tax on excess parachute payments imposed by Code Section 4999, the agreements also provide that such executive officer may be entitled to a gross-up payment from the Company to cover the excise tax and any additional taxes on the gross-up payment. In November 2009, the Board eliminated the excise tax gross-up benefit for all new Change of Control Agreements entered into on or after November 13, 2009. Agreements already in place on that date have since been modified to provide that if payments (other than the gross-up payment) to the NEO do not exceed 110% of the maximum amount the NEO could receive without triggering the excise tax, the payments to such executive officer will be reduced to that maximum amount and such executive officer will not receive a gross-up payment.

The excise tax amount in the tables below is based on the Company's best estimate of the individual's liabilities under Code Sections 280G and 4999, assuming the NEO was terminated in connection with a Change of Control on December 30, 2011, and that the payments could not be reduced in accordance with the change described above.

In November 2010, the Board decided to change the "highest annual bonus" to target bonus for all new Change of Control Agreements entered into on or after November 11, 2010.



Payments required by these agreements, as well as payments provided by the other Company compensation arrangements described above, are summarized in the tables below.

	Potential Payment Upon Termination or Change of Control(1)					
	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
Scott L. Morris						
Chairman, President & CEO						
Compensation Components						
Severance (2)	\$ 4,520,676	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 3,780,168	\$ 0	\$ 3,063,160	\$ 3,063,160	\$ 3,063,160	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,198	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 1,340,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,324,405	\$ 0
280-G Tax Gross-Up	\$ 3,045,783	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total	\$11,381,825	\$ 0	\$3,063,160	\$4,403,160	\$5,387,565	\$ 0

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year $((670,000+627,669) \times 3) + 627,669$.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock in the event of death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Mr. Morris would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The "death benefit" is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.


Potential Payment Upon Termination or Change of Control(1)

	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
Mark T. Thies						
Senior Vice President & CFO						
Compensation Components						
Severance (2)	\$1,898,460	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 791,936	\$ 0	\$747,159	\$ 747,159	\$ 747,159	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,198	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 690,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$1,908,616	\$ 0
280-G Tax Gross-Up	\$1,002,340	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total	\$3,727,934	\$ 0	\$747,159	\$1,437,159	\$2,655,776	\$ 0

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year $((345,000+215,865)\times 3)+215,865$.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Mr. Thies would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The "death benefit" is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.


Potential Payment Upon Termination or Change of Control(1)

	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
Dennis P. Vermillion						
Sr. Vice President & Environmental Compliance Officer						
Compensation Components						
Severance (2)	\$1,207,780	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 641,128	\$ 0	\$596,369	\$ 596,369	\$ 596,369	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 35,198	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 610,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 663,261	\$ 0
280-G Tax Gross-Up	\$ 651,836	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total	\$2,535,942	\$ 0	\$596,369	\$1,206,369	\$1,259,630	\$ 0

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year $((305,000 + 199,260) \times 2) + 199,260$.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Mr. Vermillion would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The "death benefit" is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.



Potential Payment Upon Termination or Change of Control(1)

	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
Marian M. Durkin						
Senior Vice President, General Counsel & Chief Compliance Officer						
Compensation Components						
Severance (2)	\$1,621,874	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 791,936	\$ 0	\$747,159	\$ 747,159	\$ 747,159	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 25,870	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 580,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 494,834	\$ 0
280-G Tax Gross-Up	\$ 819,756	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total	\$3,259,437	\$ 0	\$747,159	\$1,327,159	\$1,241,993	\$ 0

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year $((290,000 + 187,969) \times 3) + 187,969$ - \$2 difference due to rounding.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Ms. Durkin would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The "death benefit" is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.


Potential Payment Upon Termination or Change of Control(1)

	Termination Without Cause or With Good Reason after a Change of Control	Voluntary Termination	Retirement	Death	Disability	Involuntary Termination With or Without Cause
Karen S. Feltes						
Senior Vice President & Corporate Secretary						
Compensation Components						
Severance (2)	\$ 1,423,886	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Value of Accelerated Equity (3)	\$ 869,186	\$ 0	\$ 798,438	\$ 798,438	\$ 798,438	\$ 0
Retiree Medical (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Health Benefits (5)	\$ 13,779	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Death Benefit (6)	\$ 0	\$ 0	\$ 0	\$ 510,000	\$ 0	\$ 0
Supplemental Disability Benefit (7)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 208,360	\$ 0
280-G Tax Gross-Up	\$ 708,768	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total	\$3,015,619	\$ 0	\$798,438	\$1,308,438	\$1,006,799	\$ 0

- (1) All scenarios assume termination occurred on December 30, 2011 and a stock price of \$25.75, the closing price of Company stock on that date.
- (2) Amount equals three times the highest base pay and annual bonus amounts for the prior three years plus an amount for to the 2011 bonus calculated on the basis of the highest annual bonus paid during the last three years prorated for the current fiscal year $((255,000 + 164,722) \times 3) + 164,722$ - \$2 difference due to rounding.
- (3) Assumes full acceleration of restricted stock and prorated acceleration of performance shares (granted in 2010 and 2011) upon termination in connection with a Change of Control, and also assumes prorated acceleration of performance shares and restricted stock after death, disability, and retirement, and assumes all shares are forfeited in the event of voluntary or involuntary termination with cause. Under death, disability, and retirement, achievement of performance goals were assumed to be 100%, although in actuality the participant must wait until the end of the performance period to receive his/her prorated amount using the actual performance for the entire measurement period.
- (4) Retiree medical benefits are generally available to all employees who meet age and service eligibility requirements.
- (5) For a Change of Control, Ms. Feltes would be credited with two years of continued health coverage based upon coverage elected and cost of health coverage as of December 30, 2011.
- (6) The "death benefit" is explained in the CD&A under Company Self-Funded Death Benefit Plan. Amount shown is twice the annual base salary and is paid in a lump sum.
- (7) The supplemental disability benefit is 60% of base annual pay and is comprised of benefits available from the Avista Corp. Supplemental Executive Disability Plan, Long-term Disability Plan, Workers Compensation (if applicable), and Social Security. Amount shown is the present value of the annual disability benefit payable to age 65. Present value was determined by using an interest rate of 4.80% and the RP2000 mortality table projected to 2011 for males and females.



DIRECTOR COMPENSATION—2011

Prior to September 1, 2011, directors who were not employees of the Company received an annual retainer of \$98,000, of which a minimum of \$30,000 was paid in Company common stock. Directors were also paid \$1,500 for each meeting of the Board or any Committee meeting of the Board. Directors who served as Board Committee Chairs received an additional \$5,000 annual retainer, with the exception of the Audit Committee Chair, who received an additional \$10,000 annual retainer. The Lead Director received an additional annual retainer of \$15,000.

In addition, any non-employee director who served as director of a subsidiary of the Company received from the Company a meeting fee of \$1,500 for each subsidiary Board meeting the director attended. Directors Anderson, Blake and Kelly hold Board positions with a subsidiary of the Company.

Each year, the Governance Committee reviews all components of directors' compensation. During 2011, the Governance Committee engaged Towers Watson to assist in this review. The information provided by Towers Watson is used to compare the Company's current director compensation with peer companies in the utility industry and general industry companies of similar size. The companies comprising the Director Peer Group are those companies in the S&P Utility Mid-Cap, as well as NorthWestern Energy, Northwest Natural Gas Company, and Portland General Electric Company.

At its August 12, 2011 meeting, the Board reviewed survey results from Towers Watson were reviewed regarding current pay practices for director compensation. Although the Company has historically targeted compensation for non-employee directors at the 50th percentile of their utility peer group, the survey indicated that Avista director compensation was below the average. Therefore, the Board approved an increase in the director's annual retainers as of September 1, 2011. Directors who are not employees of the Company now receive an annual retainer of \$116,000, of which a minimum of \$48,000 is paid in Company common stock. An annual retainer of \$5,000 was established for any non-employee director who serves as director of a subsidiary of the Company. An additional meeting fee of \$1,500 for each subsidiary Committee meeting that the director attends was also established.

Each director is entitled to reimbursement of reasonable out-of-pocket expenses incurred in connection with meetings of the Board or its Committees and related activities, including director education courses and materials. These expenses include travel to and from the meetings, as well as any expenses they incur while attending the meetings.

The Company has a minimum stock ownership expectation for all Board members. Directors are now expected to achieve a minimum investment of \$236,000 or 11,000 shares, whichever is less, in Company common stock within four years of their becoming Board members and are expected to retain at least that level of investment during their tenure as Board members. Shares that have previously been deferred under the former Non-Employee Director Stock Plan count for purposes of determining whether a director has achieved the ownership expectation.

The ownership expectation illustrates the Board's philosophy of the importance of stock ownership for directors to further strengthen the commonality of interest between the Board and shareholders. The Governance Committee annually reviews director holdings to determine whether they meet ownership expectations. All directors currently comply based on their years of service completed on the Board.



There were no annual stock option grants or non-stock incentive plan compensation payments to directors for services in 2011 and none are currently contemplated under the current compensation structure. The Company also does not provide a retirement plan or deferred compensation plan to its directors. Listed below is compensation paid to each director during 2011.

Director Name	Annual Retainer			Total Compensation (\$)
	Fees Earned or Paid in Cash \$(1)(2)	Director Compensation Paid in Stock \$(1)(2)	All Other Compensation \$(3)	
Erik J. Anderson	\$ 109,195	\$ 35,971		\$ 145,166
Kristianne Blake	\$ 103,703	\$ 53,964	\$ 18,688	\$ 176,355
Donald C. Burke	\$ 18,038	\$ 46,796		\$ 64,834
Roy L. Eiguren (4)	\$ 21,667	\$ —		\$ 21,667
Rick R. Holley	\$ 12,038	\$ 46,795		\$ 58,834
John F. Kelly	\$ 128,695	\$ 35,971	\$ 16,110	\$ 180,776
Rebecca A. Klein	\$ 30,364	\$ 103,969		\$ 134,333
Michael L. Noël	\$ 71,041	\$ 65,959		\$ 137,000
Marc F. Racicot	\$ 72,037	\$ 55,963		\$ 128,000
Heidi B. Stanley	\$ 99,529	\$ 35,971		\$ 135,500
R. John Taylor	\$ 77,037	\$ 55,963	\$ 22,019	\$ 155,019
Totals	\$ 743,344	\$ 537,323	\$ 56,817	\$ 1,337,484

- (1) Directors have the option of taking \$68,000 of their annual retainer (\$104,000 as pro-rated for 2011) in Company common stock, in cash, or in a combination of stock and cash (a minimum of \$36,000 of their pro-rated annual retainer for 2011 was automatically paid in Company common stock). Amounts in these columns include cash retainers, Chair retainers, Board and Committee meeting fees, and fees for directors sitting on a subsidiary Board and attending subsidiary Board and Committee meetings—Anderson, Blake and Kelly are the only directors who currently sit on a subsidiary Board.
- (2) Amounts for Ms. Blake and Mr. Taylor include dividends paid on those shares that were deferred prior to December 31, 2004, under the former Non-Employee Director Stock Plan, as well as proceeds from the exercise of stock options. (Blake and Taylor are the only directors who deferred receipt of stock until a later date.) Amounts for Mr. Kelly include proceeds from the exercise of stock options. The Company does not provide perquisites or other personal benefits to its Board members.
- (4) Mr. Eiguren resigned from the Board effective February 5, 2011.

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board has appointed Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte), as the Company's independent registered public accounting firm for continuing audit work in 2012. The Board has determined that it would be desirable to request that the shareholders ratify such appointment. Deloitte has conducted consolidated annual audits of the Company for many years, and is one of the world's largest firms of certified public accountants. A representative of Deloitte is expected to attend the Annual Meeting with the opportunity to make a statement if he/she desires to do so, and is expected to be available to respond to appropriate questions.

Shareholder approval is not required for the appointment of Deloitte. However, the appointment is being submitted to shareholders for ratification. Should the shareholders fail to ratify the appointment of Deloitte, such failure (1) would have no effect on the validity of such appointment for 2012 (given the difficulty and expense of changing the independent registered public accounting firm mid-way through a year) and (2) would be a factor to



be taken into account, together with other relevant factors, by the Audit Committee and by the full Board in the selection and appointment of the independent registered public accounting firm for 2013 (but would not necessarily be the determining factor).

The Board recommends a vote "FOR" the proposal to ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm to audit the books, records, and accounts of the Company for the year 2012.

Auditors Fees

Aggregate fees billed to the Company for the years ended December 31, 2011 and 2010 by Deloitte were as follows:

	2011	2010
Audit Fees (a)	\$1,729,600	\$1,529,310
Audit-Related Fees (b)	96,000	95,541
Tax Fees (c)	29,842	49,827
All Other Fees (d)	77,240	30,001
Total	<u>\$1,932,682</u>	<u>\$1,704,679</u>

- (a) Fees for audit services billed in 2011 and 2010 consisted of:
- Audit of the Company's annual consolidated financial statements and internal controls over financial reporting.
 - Reviews of the Company's quarterly reports on Form 10-Q.
 - Comfort letters, agreed-upon procedures, statutory and regulatory audits, consents, and other services related to SEC matters.
 - Audits of subsidiary financial statements.
- (b) Fees for audit-related services billed in 2011 and 2010 consisted primarily of separate internal control audits and separate financial statement audits of affiliated entities.
- (c) Fees for tax services billed in 2011 and 2010 consisted of income tax planning and advice.
- (d) All other fees for 2011 and 2010 consisted of licensing of accounting literature research databases, attendance at training seminars and other miscellaneous projects.

In considering the nature of the services provided by Deloitte, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with Deloitte and Company management to determine that they are permitted under the Sarbanes-Oxley Act and under the rules and regulations concerning auditor independence promulgated by the SEC, the Public Company Accounting Oversight Board (PCAOB), and the American Institute of Certified Public Accountants.

Under the Sarbanes-Oxley Act, the Audit Committee is responsible for the appointment, compensation, and oversight of the work of the Company's independent registered public accounting firm. As part of this responsibility, the Audit Committee is required to pre-approve the audit and permissible non-audit services to be performed. The Audit Committee has adopted what it terms its Audit and Non-Audit Services Pre-Approval Policy (the Policy), which sets forth the procedures and conditions pursuant to which services proposed to be performed by the Company's independent registered public accounting firm may be pre-approved. All services provided by Deloitte in 2011 and 2010 were pre-approved in accordance with the Policy adopted by the Audit Committee.

The SEC's rules establish two alternatives for pre-approving services provided by the independent registered public accounting firm. Engagements for proposed services may either be specifically pre-approved by the Audit Committee (specific pre-approval) or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as in the latter circumstance the Audit Committee is informed on a


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timely basis of any engagement entered into on such basis (general pre-approval). The Audit Committee combined these two approaches in its Policy after concluding that doing so will result in an effective and efficient procedure to pre-approve services to be performed by the Company's independent registered public accounting firm.

As set forth in this Policy, except for those categories of services where the Policy requires specific pre-approval, engagements may be entered into pursuant to general pre-approvals established by the Audit Committee. The Audit Committee will periodically review and generally pre-approve the categories of services that may, as contemplated by this Policy, be provided by the Company's independent registered public accounting firm without obtaining specific pre-approval from the Audit Committee, and will establish budgeted amounts for such categories. The Audit Committee may add or subtract to the list of general pre-approved services from time-to-time, based on subsequent determinations by the Audit Committee. Any general pre-approval will be set forth in writing and included in the Audit Committee minutes. Unless an engagement of the independent auditor to provide a particular service is entered into pursuant to and in accordance with the Audit Committee's general pre-approval then in effect, the engagement will require specific pre-approval by the Audit Committee.

Proposed services exceeding pre-approved cost levels or budget amounts previously established by the Audit Committee will also require specific pre-approval by the Audit Committee.

The Audit Committee intends to pre-approve services, whether specifically or pursuant to general pre-approvals, only if the provision of such services is consistent with SEC and PCAOB rules on auditor independence and all other applicable laws and regulations. In rendering specific or general pre-approvals, the Audit Committee will consider whether the independent registered public accounting firm's provision of specific services, or categories of services, would be inconsistent with the independence of the auditor.

PROPOSAL 3
PROPOSED AMENDMENTS TO
RESTATED ARTICLES OF INCORPORATION TO
REDUCE CERTAIN SHAREHOLDER APPROVAL REQUIREMENTS

General

The Board of Directors is proposing that the Company's Restated Articles of Incorporation, as amended (the Articles), be amended to reduce the approval standards for shareholder voting to a Majority of Votes Cast (as hereinafter defined), where permissible under Washington law (except as noted below), and otherwise to the lowest threshold permitted by Washington law. These amendments would affect different provisions of the Articles, which have different approval standards required for amendment, and therefore two separate sub-proposals are submitted, one for each group of amendments requiring the same approval standard.

Background

At the 2011 Annual Meeting of Shareholders a resolution proposed by a shareholder (the "Shareholder Resolution") was adopted that requested that the Board take the necessary steps to reduce the shareholder approval standard in the Articles and Bylaws to a Majority of Votes Cast wherever a higher standard was required. The text of the Shareholder Resolution is as follows:

"Resolution: That the shareholders of Avista Corporation request our Board of Directors to take the steps necessary so that each shareholder voting requirement in our articles and by-laws, that calls for a greater than simple majority vote, be changed to a majority of votes cast "for" or "against" the proposal in compliance with applicable laws."

In the Company's Proxy Statement, dated March 31, 2011 (the "2011 Proxy Statement"), the Board recommended that shareholders vote against the Shareholder Resolution. This recommendation was based on the fact that in many respects the Shareholder Resolution is inconsistent with Washington law and the changes are not always in the best interests of the shareholders. Despite the Boards' recommendation, the Shareholder Resolution was adopted, and this proposal (the "Board Proposal") is being made by the Board to comply with it.



However, the Company is incorporated under the laws of the State of Washington, and, as indicated in the 2011 Proxy Statement, certain of the changes that would be covered by the Shareholder Resolution would conflict with Washington law and, therefore, cannot be implemented as proposed.

Under the Washington Business Corporation Act (the "WBCA"), the general rule is that if a quorum of a majority of shares entitled to vote on a proposed corporate action exists, such corporate action is approved if the number of votes actually cast favoring such corporate action exceeds the number of votes actually cast opposing such corporate action, unless the articles of incorporation or Washington law require a greater number of affirmative votes. For convenience, the aforesaid majority of votes cast standard is herein called a "Majority of Votes Cast." Consistent with the Shareholder Resolution, the Board proposal would change the approval standard to a Majority of Votes Cast, wherever permissible under Washington law (except as noted below under "Transactions with Directors"), and otherwise would reduce the approval standard to the lowest threshold permitted by Washington law.

The approval standards set forth in certain provisions of the Articles are already the lowest permissible under Washington law. No changes to these provisions are being proposed.

The specific amendments to the Articles that the Board is proposing, which are separated into two specific proposals according to the standard required for approval, are described below.

Proposal 3A
Proposed Amendments Requiring Approval of
Holders of 2/3 of the Outstanding Shares of Common Stock

Creation of New Class of Stock

Article THIRD of the Articles currently require the approval of the holders of two-thirds of the total number of shares of common stock outstanding to create a new class of stock, including, for example, preference stock or any other class of stock senior to the common stock. Washington law would require the approval of the holders of at least two-thirds of the outstanding shares of common stock for an amendment to the Articles to create a new class of stock, as well as most other amendments to the Articles; provided, however, that Washington law permits the articles of incorporation of a corporation to require a greater or lesser vote, so long as the required vote is not less than a majority of all votes entitled to be cast. Thus, Proposal 3A would change the approval requirements for the creation of a new class of stock such that approval by the holders of only a majority of the outstanding shares of common stock entitled to vote would be required.

Dispositions of Assets (including Mergers); Effect of New Statutes

Article SEVENTH of the Articles contains two paragraphs (the eighth and ninth paragraphs of that Article) dealing with dispositions of assets, both of which were included in the Articles well before the State of Washington adopted the WBCA. The first such paragraph deals with dispositions of assets, with the Company presumably continuing to remain in business, while the second such paragraph deals with dispositions of assets to a new company for the purpose of that company taking over the business of the Company. In each case, the approval of the holders of two-thirds of the outstanding shares of common stock is required under the Articles.

Proposal 3A would eliminate these two paragraphs in their entirety because the WBCA now contains detailed provisions governing matters such as mergers and statutory share exchanges with another entity, the sale or other disposition of all or substantially all a corporation's assets and dissolution. These statutory provisions must be complied with in any event. As discussed above, however, the WBCA requires that any such transaction be approved by the holders of at least two-thirds of the outstanding shares of common stock, except that the law permits the articles of incorporation of the corporation to require a greater or lesser vote, so long as the required vote is not less than a majority of all votes entitled to be cast.



Accordingly, Proposal 3A would (1) delete the two archaic paragraphs and (2) include a new paragraph to the effect that the approval of the holders of only a majority of the outstanding shares of common stock would be required for any such transaction.

Article SEVENTH of the Articles also contains a provision (the tenth paragraph of that Article) to the effect that, if approved by the holders of a majority of the outstanding shares of common stock, any statute enacted after the date of the inclusion of such provision in the Articles that affects the rights or powers of corporations or shareholders shall apply to the Company and its shareholders. Again, this provision was included in the Articles well before the State of Washington adopted WBCA. Proposal 3A would simply delete this paragraph because the WBCA applies to the Company and its shareholders unconditionally. No shareholder approval or consent is required in order for the Company and its shareholders to be bound by the WBCA.

Approval of Proposal 3A

Under Washington law, an amendment to the Articles that reduces a voting requirement for a particular corporate action must be adopted by the same vote as is required under the voting requirements then in effect for approval of the corporate action. Therefore, Proposal 3A would be approved upon the affirmative vote of the holders of two-thirds of the total number of outstanding shares of common stock.

Proposal 3B Proposed Amendments Requiring Approval of Holders of 80% of the Outstanding Shares of Common Stock

80% Approval Requirement for Amendment of Certain Provisions

The Articles provide that various provisions of the Articles may not be amended or repealed, and inconsistent provisions may not be included in the Articles or Bylaws, without the approval of the holders of 80% of the total number of shares of common stock outstanding, including:

- the provisions regarding the number of directors, the filling of vacancies and the removal of directors by shareholders;
- provisions regarding the calling of special meetings of shareholders;
- the “fair price” provision (described below);
- provisions regarding the adoption, alteration, amendment, change and repeal of the Bylaws of the Corporation
- the provisions of the Bylaws of the Corporation relating to procedures for the nomination of Directors; and
- each provision requiring such 80% approval requirement.

Proposal 3B would amend such provisions of the Articles to reduce such approval requirement to a majority of the outstanding shares of common stock, consistent with Washington law. Proposal 3B would also clarify that such provisions of the Articles do not impose any shareholder approval requirement in addition to the requirements, if any, of Washington law with respect to any such amendment or provision that is approved by the Board of Directors.

Transactions with “Interested Shareholders”

The Articles require the approval of the holders of 80% of the total number of shares of common stock outstanding for asset sales, mergers and certain other transactions with an Interested Shareholder (generally, a holder of 10% of the outstanding shares of common stock) unless certain specified conditions are met. This provision, which is sometimes called a “fair price” provision, was approved by the shareholders in 1987 in order to afford protection against an unequal treatment to shareholders in the context of “two-tiered” or “front-end loaded” tender offers.



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As noted above in the discussion of Proposal 3A, Washington law would require the approval of the holders of at least two-thirds of the outstanding shares of common stock for a sale of substantially all of the Company's assets or for a merger of the Company into another entity; provided, however, that Washington law would permit a lower approval standard to be contained in the Articles, so long as it is not less than a majority of all votes entitled to be cast. To be consistent with the approval requirements for dispositions of essential assets and mergers, Proposal 3B would amend the Articles to require the approval by the holders of a majority of the outstanding shares of common stock for asset sales, mergers and certain other transactions with an Interested Shareholder.

Approval of Proposal 3B

Under the existing provisions of the Articles, as discussed above, and under Washington law, Proposal 3B would be approved upon the affirmative vote of the holders of 80% of the outstanding shares of common stock.

Transactions with Directors

The Articles currently require the approval of either the Board of Directors (or Executive Committee) or the holders of a majority of all the outstanding shares of capital stock of the Corporation entitled to vote to authorize or ratify a transaction in which a director of the Corporation contracts with the Corporation either as a vendor, purchaser or otherwise (or in which a firm in which the director is a member, director, shareholder or is otherwise interested contracts with the Corporation). The Shareholder Resolution calls for the amendment of the Articles to require only the approval of a Majority of Votes Cast to authorize such a transaction.

The Board of Directors has considered carefully the ramifications of the proposed amendment to the Articles, as suggested by the Shareholder Resolution, in the context of the approval of transactions with directors. The Board has concluded that it would not be in the best interests of shareholders and that it cannot, in good faith, recommend to shareholders an amendment that would require that transactions with directors (if not approved by the Board or the Executive Committee) be approved only by a Majority of Votes Cast. The Board firmly believes that a higher approval standard, such as that currently contained in the Articles, is in the best interest of shareholders and should be required to approve such transactions with directors.

Accordingly, notwithstanding the Shareholder Resolution, the Board of Directors is not recommending any amendment to the provision of the Articles that currently requires that transactions with directors (if not approved by the Board or the Executive Committee) be authorized or ratified by a majority of the outstanding shares of capital stock entitled to vote.

Recommendation of the Board

In light of the apparent views of the Company's shareholders, as evidenced by the adoption of the Shareholder Resolution at the 2011 Annual Meeting of Shareholders, the Board of Directors believes the Articles should be amended as described above. Accordingly, the Board recommends that the shareholders approve Proposals 3A and 3B. Notwithstanding the Shareholder Resolution, however, the Board is not recommending any amendment to the provision of the Articles with respect to the approval of transactions with directors.

The text of Article THIRD, Article FIFTH, Article SEVENTH and Article EIGHTH, as they would be amended if the proposal were adopted, is set forth in Exhibit A to this proxy statement.

The Board recommends a vote "FOR" Proposals 3A and 3B to reduce shareholder approval requirements.



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**PROPOSAL 4
ADVISORY VOTE ON EXECUTIVE COMPENSATION**

As required by the Exchange Act, the Board is submitting a separate resolution, to be voted on by shareholders in a non-binding vote, approving, on an advisory basis, the Company's executive compensation.

The text of the resolution in respect of this Proposal 4 is as follows:

"Resolved, that the shareholders approve, on an advisory basis, the compensation of the Company's NEOs as disclosed in the Company's proxy statement, pursuant to the compensation disclosure rules of the SEC, under the "CD&A," "Executive Compensation Tables" and the related narrative disclosure.

The Board recommends a vote for this resolution. As described in this proxy statement under the CD&A, the Company's compensation program is designed to focus Company executives on the achievement of specific annual, long-term and strategic goals set by the Company. The goals are structured to align executives' interests with those of shareholders by rewarding performance that maintains and improves shareholder value. The following features of the compensation structure reflect this approach:

- Executive compensation programs have both short and long-term components.
- Annual cash incentive components focus on both the actual results and the sustainability and quality of those results.
- The total compensation program does not provide for guaranteed bonuses and has multiple performance measures.
- The Company only has two executive employment agreements in place for NEOs, and they do not contain guarantees for salary increases, non-performance-based bonuses or equity compensation.
- In 2010, the Company adopted a recoupment policy that authorizes the Board to recover incentive payouts based on performance results that are subsequently revised or restated to levels that would have produced payouts lower than the original incentive plan payouts.

The Board believes that the Company's current executive compensation program properly focuses our executives on the achievement of specific annual, long-term and strategic goals. The Board also believes that the Company's executive compensation program properly align the executives' interests with those of shareholders.

Shareholders are urged to read the CD&A section of this proxy statement which discusses in greater detail how the Company's compensation program implements the specific goals set by the Company.

The Board recommends a vote "FOR" the approval, on an advisory basis, of the compensation of the Company's named executive officers.

Although the advisory vote on Proposal 4 is non-binding, the Board and the Compensation Committee will review the results of the votes and, consistent with our record of shareholder engagement, are expected to take the outcome of the votes into consideration, along with other relevant factors, in making a determination concerning future executive compensation and the frequency of such advisory votes.



SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS

The following table shows the number of shares of common stock of the Company held beneficially, as of March 1, 2012, by the directors, the nominees for director, each of the executive officers named in the Summary Compensation Table, and directors and executive officers as a group. The directors and executive officers as a group beneficially own 1.29% of the outstanding common stock of the Company. No director or executive officer owns, nor do the directors and executive officers as a group own, in excess of 1% of the stock of any indirect subsidiaries of the Company. None of the directors or NEOs has pledged Company common stock as security.

Name	Shares Beneficially Owned			Other		Total
	Direct	Indirect	Exercisable Stock Options(1)	Deferred Shares (2)	Restricted Stock Units Not Yet Vested(3)	
Erik J. Anderson	14,867					14,867
Kristianne Blake	14,525		3,000	2,519		20,044
Donald C. Burke	2,157					2,157
Marian M. Durkin	43,579				12,099	55,678
Karen S. Feltes	20,345				13,899	34,244
Rick R. Holley	3,157					3,157
John F. Kelly	23,213					23,213
Rebecca A. Klein	5,913					5,913
Scott L. Morris	145,206	13,386(4)			24,597	183,189
Michael L. Noël		20,162(5)				20,162
Marc F. Racicot	6,587					6,587
Heidi B. Stanley	12,674	10,248(6)				22,922
R. John Taylor	8,788	4,000(7)	3,000	5,496		21,284
Mark T. Thies	37,195	5,751(8)			12,099	55,045
Dennis P. Vermillion	14,130	8,426(4)			12,199	34,755
All directors and executive officers as a group, including those listed above—24 individuals	<u>464,986</u>	<u>112,613</u>	<u>47,775</u>	<u>25,643</u>	<u>106,317</u>	<u>757,334</u>

- (1) All stock options held by directors and executive officers are exercisable within 60 days.
- (2) Shares deferred under the Executive Deferred Compensation Plan or under the former Non-Employee Director Stock Plan.
- (3) Restricted Stock units that have been granted to the executive officers, but have not yet vested. Restricted stock units vest in three equal annual increments, provided the officer remains employed by the Company. If the employment of an executive officer terminates, all unvested shares are forfeited.
- (4) Shares held in the Company's 401(k) plan.
- (5) Includes 19,502 shares held by Noël Consulting Company, Inc. and 660 shares held by Mr. Noël's adopted son, Shane Burroughs.
- (6) Shares held by Ms. Stanley's spouse, Ronald Stanley, in a profit-sharing plan not administered by the Company.
- (7) Shares held in an employee benefit plan not administered by the Company for which Mr. Taylor shares voting and investment power.
- (8) Shares held by Mr. Thies' spouse, Elizabeth Thies.



SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16 of the Exchange Act requires that executive officers, directors and holders of more than 10% of the Company's common stock file reports of their trading in Company equity securities with the SEC. Based solely on a review of Forms 3, 4 and 5 furnished to the Company with respect to 2011, the Company believes that all Section 16 filing requirements applicable to these persons were completed in a timely manner.

OTHER SECURITY OWNERSHIP

As of March 1, 2012, the following were beneficial owners of 5% or more of the Company's common stock:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Blackrock, Inc. 40 East 52 nd Street New York, NY, 10022	7,247,337 shares – sole voting power	12.45%
	7,247,337 shares – sole dispositive power	
The Vanguard Group, Inc.* 100 Vanguard Blvd. Malvern, PA 19355	88,714 shares – sole voting power	5.47%
	3,100,611 shares – sole dispositive power	
	88,714 shares – shared dispositive power	
	3,189,325 shares – aggregate amount beneficially owned by each reporting person	

* Vanguard is the holder of the Company's 401(k) accounts.

ANNUAL REPORT AND FINANCIAL STATEMENTS

A copy of the Company's 2011 Annual Report to Shareholders, which contains the Company's audited financial statements, accompanies this proxy statement.

OTHER BUSINESS

The Board does not intend to present any business at the meeting other than as set forth in the accompanying Notice of Annual Meeting of Shareholders, and has no present knowledge that others intend to present business at the meeting. If, however, other matters requiring the vote of the shareholders properly come before the meeting or any adjournment(s) thereof, the individuals named in the proxy card will have discretionary authority to vote the proxies held by them in accordance with their judgment as to such matters.

2013 ANNUAL MEETING OF SHAREHOLDERS

General

The 2013 Annual Meeting of Shareholders is currently scheduled for Thursday, May 9, 2013, in Spokane, Washington. Matters to be brought before that meeting by shareholders are subject to the requirements described below.

The date and location of the 2013 Annual Meeting of Shareholders are subject to change. Any such change and any resulting change in the dates referred to below, would be specified by the Company in a report filed with the SEC. In addition, any change in the dates referred to below that results from a change in SEC rules or the Company's Bylaws would be similarly reported by the Company.



Notice of Nominations and Other Business to Be Presented at Annual Meeting

Notice of nominations of directors and other business to be presented by a shareholder at the 2013 Annual Meeting of Shareholders must be delivered to the Company as follows:

- written notice of a shareholder's intent to nominate a person for election as a director at the 2013 Annual Meeting of Shareholders must be delivered to the principal executive offices of the Company to the attention of the Corporate Secretary on or before February 8, 2013, but not before November 9, 2012; and
- written notice of a shareholder's intent to propose other business to be brought before the 2013 Annual Meeting of Shareholders must be delivered to the principal executive offices of the Company to the attention of the Corporate Secretary on or before February 8, 2013, but not before November 9, 2012.

In any case, the written notice of the shareholder must, in order for the matter to be eligible to be presented at the meeting, comply with all of the requirements and contain all of the information specified in the Company's Bylaws, without regard to whether the proposed nomination or other business is to be included in management's proxy soliciting materials or those of any other person.

Notice of Proposals to be Included in Management's Proxy Materials

Proposals that shareholders seek to have included in management's proxy soliciting materials must be received by the Corporate Secretary on or before November 30, 2012 and, in order to be so included, must contain the information required by the SEC's Rule 14a-8 and otherwise comply with SEC rules. However, in order for a proposal to be eligible to be presented at the meeting, the shareholder must also comply with all of the requirements specified in the Company's Bylaws for nominating a person for election as a director and/or bringing other business before the meeting.

EXPENSE OF SOLICITATION

The expense of soliciting proxies will be borne by the Company. Proxies will be solicited by the Company primarily by mail, but may also be solicited personally and by telephone at nominal expense to the Company by directors, officers, and regular employees of the Company. In addition, the Company has engaged Phoenix Advisory Partners at a cost of \$6,500 plus out-of-pocket expenses, to solicit proxies in the same manner. The Company will also request banks, brokerage houses, custodians, nominees, and other record holders of the Company's common stock to forward copies of the proxy soliciting material and the Company's 2011 Annual Report to Shareholders to the beneficial owners of such stock, and the Company will reimburse such record holders for their expenses in connection therewith.

By Order of the Board,

Karen S. Feltes
Senior Vice President & Corporate Secretary

Spokane, Washington
March 30, 2012



**EXHIBIT A
PROPOSED AMENDMENTS TO
RESTATED ARTICLES OF INCORPORATION**

The proposed amendments and restatements of specified provisions of the Restated Articles of Incorporation are set forth below. Text stricken through indicates deletions, and text in italics indicates additions.

Article THIRD (Proposal 3A)

Subdivision (l) of Article THIRD, which relates to the authorization of new classes of capital stock senior to the common stock, would be amended and restated as set forth below:

Subject to the limitations set forth in subdivision (j) of this Article THIRD (and subject to the rights of any class of stock hereafter authorized), and except as may be otherwise provided by law, upon the vote of a majority of all of the Directors of the Corporation and of the holders of record of two-thirds *a majority* of the total number of shares of the Corporation then issued and outstanding and entitled to vote (or, if the vote of a larger number or different proportion of shares is required by the laws of the state of Washington, notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the vote of the holders of record of the larger number or different proportion of shares so required) the Corporation may from time to time create or authorize one or more other classes of stock with such preferences, designations, rights, privileges, powers, restrictions, limitations and qualifications as may be determined by said vote, which may be the same or different from the preferences, designations, rights, privileges, powers, restrictions, limitations and qualifications of the classes of stock of the Corporation then authorized and/or the Corporation may increase or decrease the number of shares of one or more of the classes of stock then authorized.

Article FIFTH (Proposal 3B)

The fifth paragraph of Article FIFTH, which relates to the shareholder vote required to amend the provisions of Article FIFTH (which relates to the Board of Directors), would be amended and restated as set forth below:

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the provisions of this Article FIFTH shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least eighty percent (80%) *a majority* of the voting power of all of the shares of the Voting Stock, voting together as a single class; *it being understood that this paragraph shall not impose any shareholder approval requirement in addition to the requirements, if any, of applicable law with respect to any such alteration, amendment, repeal or inconsistent provision that shall have been approved by the Board of Directors.*

Article SEVENTH (Proposal 3A)

The eighth, ninth and tenth paragraphs of Article SEVENTH, which relates, among other things, to sales of assets and mergers, would be deleted:

~~Any property of the Corporation not essential to the conduct of its corporate business may be sold, leased, exchanged, or otherwise disposed of, by authority of its Board of Directors and the Corporation may sell, lease, exchange or otherwise dispose of, all of its property and franchises, or any of its property, franchises, corporate rights, or privileges, essential to the conduct of its corporate business and purposes upon the consent of and for such consideration and upon such terms as may be authorized by a majority of all of the Directors and the holders of two-thirds of the issued and outstanding shares of the Corporation having voting power (or, if the consent or vote of a larger number or different proportion of the Directors and/or shares is required by the laws of the state of Washington, notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the consent or vote of the larger number or~~



different proportion of the Directors and/or shares so required) expressed in writing, or by vote at a meeting of holders of the shares of the Corporation having voting power duly held as provided by law, or in the manner provided by the Bylaws of the Corporation, if not inconsistent therewith.

Upon the affirmative vote of the holders of two-thirds of the issued and outstanding shares of the Corporation having voting power given at a meeting of the holders of the shares of the Corporation having voting power duly called for that purpose or when authorized by the written consent of the holders of two-thirds of the issued and outstanding shares of the Corporation having voting power and upon the vote of a majority of the Board of Directors, all of the property, franchises, rights and assets of the Corporation may be sold, conveyed, assigned and transferred as an entirety to a new company to be organized under the laws of the United States, the state of Washington or any other state of the United States, for the purpose of so taking over all the property, franchises, rights and assets of the Corporation, with the same or a different authorized number of shares of stock and with the same preferences, voting powers, restrictions and qualifications thereof as may then attach to the classes of stock of the Corporation then outstanding so far as the same shall be consistent with such laws of the United States or of Washington or of such other state (provided that the whole or any part of such stock or of any class thereof may be stock with or without a nominal or par value), the consideration for such sale and conveyance to be the assumption by such new company of all of the then outstanding liabilities of the Corporation and the issuance and delivery by the new company of shares of stock (any or all thereof either with or without nominal or par value) of such new company of the several classes into which the stock of the Corporation is then divided equal in number to the number of shares of stock of the Corporation of said several classes then outstanding. In the event of such sale, each holder of stock of the Corporation agrees so far as he may be permitted by the laws of Washington forthwith to surrender for cancellation his certificate or certificates for stock of the Corporation and to receive and accept in exchange therefor, as his full and final distributive share of the proceeds of such sale and conveyance and of the assets of the Corporation, a number of shares of the stock of the new company of the class corresponding to the class of the shares surrendered equal in number to the shares of stock of the Corporation so surrendered, and in such event no holder of any of the stock of the Corporation shall have any rights or interests in or against the Corporation, except the right upon surrender of his certificate as aforesaid properly endorsed, to receive from the Corporation certificates for such shares of said new company as herein provided. Such new company may have all or any of the powers of the Corporation and the certificate of incorporation and bylaws of such new company may contain all or any of the provisions contained in the Articles of Incorporation and Bylaws of the Corporation.

Upon the written assent, in person or by proxy, or pursuant to the affirmative vote, in person or by proxy, of the holders of a majority in number of the shares then outstanding and entitled to vote (or, if the assent or vote of a larger number or different proportion of shares is required by the laws of the state of Washington notwithstanding the above agreement of the shareholders of the Corporation to the contrary, then upon the assent or vote of the larger number or different proportion of the shares so required) (1) any or every statute of the state of Washington hereafter enacted, whereby the rights, powers or privileges of the Corporation are or may be increased, diminished, or in any way affected, or whereby the rights, powers or privileges of the shareholders of corporations organized under the law under which the Corporation is organized are increased, diminished or in any way affected or whereby effect is given to the action taken by any part less than all of the shareholders of any such corporation shall, notwithstanding any provision which may at the time be contained in these Articles of Incorporation or any law, apply to the Corporation, and shall be binding not only upon the Corporation but upon every shareholder thereof, to the same extent as if such statute had been in force at the date of the making and filing of these Articles of Incorporation and/or (2) amendments to said Articles authorized at the time of the making of such amendments by the laws of the state of Washington may be made, provided, however, that (a) the provisions of Article THIRD hereof limiting the preemptive rights of shareholders, requiring majority voting in the election of Directors and regarding entry in the capital stock account of consideration received upon the sale of shares of capital stock without nominal or par value and all of the provisions of Article FIFTH hereof shall not be altered, amended, repealed, waived or changed in any way, unless the holders of record of at least two-thirds of the number of shares entitled to vote then outstanding shall consent thereto in writing or affirmatively vote therefor in person or by proxy at a meeting of shareholders at which such change is duly considered:



The following paragraph would be inserted after the existing seventh paragraph of Article SEVENTH:

In any circumstance in which Washington law would require the approval of shareholders to authorize (1) the merger of the Corporation with or into another entity or a statutory share exchange with another entity, (2) a sale, lease, exchange or other disposition of property of the Corporation or (3) the dissolution of the Corporation, the requisite shareholder approval shall be the affirmative vote of the holders of a majority of the outstanding shares of capital stock entitled to vote on such transaction, unless Washington law shall require a higher standard.

The existing twelfth paragraph of Article SEVENTH, which relates to the shareholder vote required to amend specified provisions of Article SEVENTH, would be amended as set forth below:

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the paragraph in this Article SEVENTH relating to the adoption, alteration, amendment, change and repeal of the Bylaws of the Corporation, the paragraph in this Article SEVENTH relating to the calling and conduct of special meetings of the shareholders and this paragraph, and the provisions of the Bylaws of the Corporation relating to procedures for the nomination of Directors, shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least ~~eighty percent (80%)~~ a majority of the voting power of all the shares of the Voting Stock, voting together as a single class; *it being understood that this paragraph shall not impose any shareholder approval requirement in addition to the requirements, if any, of applicable law with respect to any such alteration, amendment, repeal or inconsistent provision that shall have been approved by the Board of Directors.*

Article EIGHTH

Subdivision (a) of Article EIGHTH, which relates to specified "Business Combinations", would be amended and restated, in part, to read as set forth below:

- (a) In addition to any affirmative vote required by law or these Articles of Incorporation, and except as otherwise expressly provided in subdivision (b) of this Article EIGHTH:
- [clauses (1), (2), (3), (4) and (5), each of which sets forth a type of transaction that constitutes a "Business Combination" for purposes of Article EIGHTH, would not be changed]
- shall require the affirmative vote of the holders of at least 80% a majority of the voting power of all of the shares of the Voting Stock, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required or that the vote of a lower percentage may be specified, by law or in any agreement with any national securities exchange or otherwise. The term "Business Combination" as used in this Article EIGHTH shall mean any transaction which is referred to in any one or more of paragraphs (1) through (5) of this subdivision (a).

The last paragraph of Article EIGHTH, which relates to the shareholder vote required to amend the provisions of Article EIGHTH, would be amended and restated to read as set forth below:

Notwithstanding anything contained in these Articles of Incorporation to the contrary, the provisions of this Article EIGHTH shall not be altered, amended or repealed, and no provision inconsistent therewith shall be included in these Articles of Incorporation or the Bylaws of the Corporation, without the affirmative vote of the holders of at least ~~eighty percent (80%)~~ a majority of the voting power of all of the shares of the Voting Stock, voting together as a single class; *it being understood that this paragraph shall not impose any shareholder approval requirement in addition to the requirements, if any, of applicable law with respect to any such alteration, amendment, repeal or inconsistent provision that shall have been approved by the Board of Directors.*



AVISTA CORP.
 1411 EAST MISSION
 P.O. BOX 3727
 SPOKANE, WA 99220-3727

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M41331-P20557-Z57162

KEEP THIS PORTION FOR YOUR RECORDS

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

DETACH AND RETURN THIS PORTION ONLY

AVISTA CORP.

The Board of Directors recommends a vote "FOR" each Nominee.

1. Election of Directors Nominees:		For	Against	Abstain
1a.	Erik J. Anderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1b.	Kristianne Blake	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1c.	Donald C. Burke	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1d.	Rick R. Holley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1e.	John F. Kelly	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1f.	Rebecca A. Klein	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1g.	Scott L. Morris	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1h.	Michael L. Noel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1i.	Marc F. Racicot	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1j.	Heidi B. Stanley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1k.	R. John Taylor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Board of Directors recommends a vote "FOR" item 2.

2. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2012.		For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Board of Directors recommends a vote "FOR" Proposal 3A and 3B to reduce shareholder approval requirements.

3. Amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements:		For	Against	Abstain
3A.	Amendment Requiring Approval of Holders of 2/3 of the Outstanding Shares of Common Stock.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3B.	Amendments Requiring Approval of Holders of 80% of the Outstanding Shares of Common Stock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Board of Directors recommends you to vote FOR the following proposal.

4. Advisory (non-binding) vote on executive compensation.		For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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Signature [PLEASE SIGN WITHIN THE BOX]

Date

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Signature (Joint Owners)

Date



AVISTA CORPORATION
NOTICE & PROXY STATE

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
 The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

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PROXY/VOTING INSTRUCTION CARD

**This proxy is solicited on behalf of the Board of Directors of Avista Corp.
 For the Annual Meeting of Shareholders on Thursday, May 10, 2012**

The undersigned hereby appoints Scott L. Morris and Karen S. Feltes, and each of them, with full power of substitution, the proxies of the undersigned, to represent the undersigned and vote all shares of Avista Corp. Common Stock which the undersigned may be entitled to vote at the Annual Meeting of Shareholders to be held on May 10, 2012, and any adjournments thereof, as indicated on the reverse side.

If the undersigned is a participant in the Avista Investment and Employee Stock Ownership Plan, this card directs The Vanguard Group, as the Plan Administrator, to authorize Broadridge, as the Proxy Agent, to vote, as designated on the reverse, all of the shares of Avista Common Stock held of record in the undersigned's Plan account.

If you are a participant in the Avista 401(k) Savings Plan (The Plan), this proxy covers all shares for which the undersigned has the right to give voting instructions to Vanguard Fiduciary Trust Company, Trustee of the Avista 401(k) Savings Plan. This proxy, when properly executed, will be voted as directed. If no direction is given to the Trustee by 5:00 p.m. Eastern Time on May 8, 2012, the Plan's Trustee will vote the shares held in the Plan in the same proportion as votes received from other participants in the Plan.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is given, this proxy will be voted "FOR" item 2 and, if the shares represented hereby are registered in the name of the beneficial owner (and not a broker), "FOR" items 3 and 4.**



***** Exercise Your *Right* to Vote *****
**Important Notice Regarding the Availability of Proxy Materials for the
 Shareholder Meeting to Be Held on May 10, 2012.**

AVISTA CORPORATION



AVISTA CORP.
 1411 EAST MISSION
 P.O. BOX 3727
 SPOKANE, WA 99220-3727

Meeting Information

Meeting Type: Annual Meeting
For holders as of: March 9, 2012
Date: May 10, 2012 **Time:** 8:15 a.m.
Location: Avista Main Office Building
 1411 E. Mission Avenue
 Spokane, WA 99202

You are receiving this communication because you hold shares in the above named company.

This is not a ballot. You cannot use this notice to vote these shares. This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. You may view the proxy materials online at www.proxyvote.com or easily request a paper copy (see reverse side).

We encourage you to access and review all of the important information contained in the proxy materials before voting.

See the reverse side of this notice to obtain proxy materials and voting instructions.

MM1355-PZ0557-Z5716Z



— Before You Vote —

How to Access the Proxy Materials

Proxy Materials Available to VIEW or RECEIVE:

NOTICE AND PROXY STATEMENT ANNUAL REPORT

How to View Online:

Have the 12-Digit Control Number available (located on the following page) and visit: www.proxyvote.com.

How to Request and Receive a PAPER or E-MAIL Copy:

If you want to receive a paper or e-mail copy of these documents, you must request one. There is NO charge for requesting a copy. Please choose one of the following methods to make your request:

- 1) *BY INTERNET:* www.proxyvote.com
- 2) *BY TELEPHONE:* 1-800-579-1639
- 3) *BY E-MAIL*:* sendmaterial@proxyvote.com

* If requesting materials by e-mail, please send a blank e-mail with the information that is printed in the box marked by the arrow (located on the following page) in the subject line.

Requests, instructions and other inquiries sent to this e-mail address will NOT be forwarded to your investment advisor. Please make the request as instructed above on or before April 26, 2012.

— How To Vote —

Please Choose One of the Following Voting Methods

Vote In Person: Many shareholder meetings have attendance requirements including, but not limited to, the possession of an attendance ticket issued by the entity holding the meeting. Please check the meeting materials for any special requirements for meeting attendance. At the meeting, you will need to request a ballot to vote these shares.

Vote By Internet: To vote now by Internet, go to www.proxyvote.com. Have the 12-Digit Control Number available and follow the instructions.

Vote By Mail: You can vote by mail by requesting a paper copy of the materials, which will include a proxy card.

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Voting Items

The Board of Directors recommends a vote "FOR" each Nominee.

1. Election of Directors
Nominees:
 - 1a. Erik J. Anderson
 - 1b. Kristianne Blake
 - 1c. Donald C. Burke
 - 1d. Rick R. Holley
 - 1e. John F. Kelly
 - 1f. Rebecca A. Klein
 - 1g. Scott L. Morris
 - 1h. Michael L. Noël
 - 1i. Marc F. Racicot
 - 1j. Heidi B. Stanley
 - 1k. R. John Taylor

The Board of Directors recommends a vote "FOR" item 2.

2. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2012.

The Board of Directors recommends a vote "FOR" Proposals 3A and 3B to reduce shareholder approval requirements.

3. Amendment of the Company's Restated Articles of Incorporation to reduce certain shareholder approval requirements.
 - 3A. Amendments Requiring Approval of Holders of 2/3 of the Outstanding Shares of Common Stock.
 - 3B. Amendments Requiring Approval of Holders of 80% of the Outstanding Shares of Common Stock.

The Board of Directors recommends you vote FOR the following proposal.

4. Advisory (non-binding) vote on executive compensation.

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Review of Executive Officer Compensation

Attachment B

2011 Executive Officer Short Term Incentive Plan for 2011

February 28, 2012

AVISTA CORPORATION & AVISTA UTILITIES

EXECUTIVE OFFICER INCENTIVE PLAN FOR 2011

PLAN PROVISIONS Approved by Board February 2011

Purpose: The Executive Officer Incentive Plan (Plan) is designed to align the interests of senior management with both shareholder and customer interests to achieve overall positive financial performance for the Company.

Plan Year: January 1, 2011 – December 31, 2011

Eligibility:

- All executive officers hired prior to October 1st and employed on December 31st of the plan year, are eligible to participate
- Subsidiary officers are not eligible to participate
- Other details available in section *Exceptions to Eligibility and Circumstances for Proration*

Performance Measurements: The Executive Officer Incentive Plan incorporates Earnings per Share (EPS) and Operating & Maintenance Cost per Customer (O&M CPC) as financial performance measurements plus four non-financial measurements: Customer Satisfaction Rating (Customer Satisfaction), Reliability Index (Reliability), Dispatched Gas Emergency Response Time (Response Time) and Performance Excellence. These performance measures help to increase shareholder value, gain financial strength and maintain safe and reliable cost-effective service levels essential for the long-term success of the Company, and, with the exception of the earnings per share goals, are identical to performance goals used in the Company's annual incentive plan for non-executive employees. The Compensation Committee believes that having similar metrics for both the executive plan and the non-executive plan encourages employees at all levels of the Company to focus on common objectives.

Utility and Non-Utility Diluted EPS - These measures reflect the financial strength and alignment of interests between officers and shareholders. Non-Utility EPS includes Advantage IQ and other non-utility businesses within the corporation.

O&M CPC - The O&M CPC is a measure that focuses on controlling costs and driving efficiencies in order to keep our costs reasonable for our customers. The measure is based on our projected number of customers, targeted O&M expense and a savings mechanism between employees and the Company. These components are combined to create the O&M CPC metric.

Customer Satisfaction - This measure is derived from a Voice of the Customer survey, which is conducted each quarter by an independent agency. The rating measures the customer's overall satisfaction with the service they received during a recent contact with

the service and/or call center. The *Overall Satisfaction* question from surveys such as this is widely used in the industry for external reporting purposes. For this measure, the Company combines the “satisfied” and “very satisfied” ratings from the survey, rather than use the standard “satisfied” rating, which is typically used in the industry. By combining these two ratings it actually makes the target more difficult to achieve.

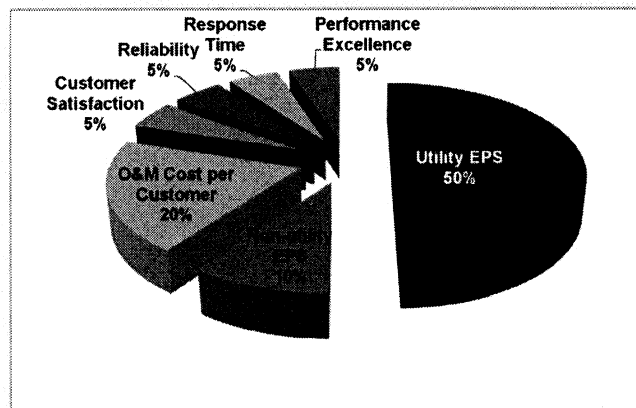
Reliability - Providing safe and reliable energy to our customers is the backbone of our business, therefore, it makes good sense to focus on service levels for our customers. This measure tracks how quickly the Company restores outages, how frequently customers are affected by outages and what percent of customers are experiencing more than three sustained outages per year. The Company combined three common industry indices in order to balance our focus. The industry names for the indices used are *Customer Average Interruption Duration Index (CAIDI)*, *System Average Interruption Frequency Index (SAIFI)* and *Customer Experiencing Multiple Interruptions (CEMI³)*. CEMI³ is a fairly new metric to the utility industry and measures the percentage of customers that experience more than three sustained outages in the year. The Company chose this level of outages over others because industry data received from JD Power’s customer service surveys indicate that customers are more apt to be dissatisfied after three outages. By focusing on these measurements it enables the Company to direct our resources appropriately and efficiently in order to contain costs and plan for future infrastructure upgrades that will benefit the customer.

Response Time - The Response Time metric measures the percentage of time the Company responds within targeted time goals for dispatched natural gas emergency calls. The Company tracks the time between the receipt of the call to the time our crew or serviceman arrives on-site, assesses the situation and *reports back* to dispatch. The Company tracks two types of emergency calls: priority 1 (blowing gas, explosions and/or fires, etc.) and priority 2 (inside or outside odors, runaway furnaces, etc.). The primary objective is customer and public safety while consistently treating customers the same throughout our service territory.

Performance Excellence - Over the past year, our employees have learned a lot about their work as individuals and as a company through our Performance Excellence efforts. This metric combines two separate measurements into one. By the end of the year, the objective is to implement or complete 92 project milestones and through process improvements achieve \$6.2 million in value to redeploy where needed. The metric demonstrates the Company’s commitment to continuously look for opportunities for efficiencies in order to keep costs reasonable for our customers in the long term.

Award Opportunity: The Plan has seven independent metrics, each having their own goal to achieve. The Plan is sliced into pieces – like a pie. The EPS component (Utility 50% and Non-Utility 10%) is the largest piece of the pie at 60 percent. O&M CPC makes up 20 percent of the pie while customer satisfaction, reliability, response time and Performance Excellence each weigh in at 5 percent.

Non-financial pieces: The non-financial pieces of the pie (customer satisfaction, reliability, response time and Performance Excellence) are all-or-nothing goals. If the Company meets the individual target for one of these metrics, employees receive the incentive award for that piece. If the Company fails to meet a goal, employees do not receive any of that incentive. For example, if the Company achieves Customer Satisfaction with a 90% or better rating, employees would receive 5% of their total incentive award opportunity. If the Company achieves 88% which is below the target, employees would receive no award under this piece. This works the same way for each non-financial measurement.



Financial pieces: The Utility and Non-Utility EPS and O&M CPC metrics work a little differently due to the various performance levels that can be met. Depending on the Company's level of performance, the piece of pie employees could earn could be smaller or larger than the target goal amount. In order to receive 100% of the financial piece, the Company must achieve the performance level set at target which is \$1.57 for Utility EPS, \$0.16 for Non-Utility EPS, or \$346.85 for O&M CPC. If the Company meets the lowest performance level at threshold, employees could receive a minimum of 50% for either Utility or Non-Utility EPS or a minimum of 10% for O&M CPC. If the Company performs above target on one of the financial metrics, employees could receive more than 100% or as high as 150% of their incentive award for the specific metric. If the Company fails to meet at least the threshold or minimum on either metric, employees do not receive any of the award under the metric. For example, if the Company achieves an O&M CPC amount of \$356.46, employees would receive approximately 16% of this portion (16% of 20%) of their overall award opportunity or if the Company achieves \$338.00, employees would receive the maximum of 150% of this portion (150% of 20%) of their award. If the Company achieves an amount such as \$359.46 which is below threshold, employees would receive no award under the O&M CPC portion of their award.

Incentive Targets for 2011:

	EPS Utility	EPS Non-Utility	O&M Cost per Customer	Customer Satisfaction	Reliability	Response Time	Performance Excellence
% of Total Award	50%	10%	20%	5%	5%	5%	5%
	<i>Payout amount varies depending on level achieved</i>			<i>Payout depends on achieving target goal</i>			
Maximum 150%	\$1.65	\$0.18	\$347.70	95%	100%	93%	100%
Goal Target 100%	\$1.57	\$0.16	\$346.85	90%	100%	93%	100%
Minimum 50%	\$1.52	\$0.13	\$357.52	85%	100%	93%	100%
Minimum 10% ¹			\$357.52				

¹Threshold payout level starts at 10% for O&M CPC portion of award opportunity.

Establish Targets: The Compensation and Organization Committee of the Board (Committee) in conjunction with management reviews and reestablishes the targets for each measurement on an annual basis. The computations for this Plan are described below:

Utility EPS and Non-Utility EPS: To determine the Utility and Non-Utility EPS goals for the plan, the Committee, in conjunction with the Finance Committee of the Board and management, considers and incorporates the EPS target range contained in the Company's original publicly disclosed earnings guidance and reviews this in light of the budgeted EPS numbers. The earnings guidance for the Utility EPS excludes the earnings impact associated with changes in the Energy Recovery Mechanism (ERM). The target in the Plan is Diluted Earnings per Share and is prior to executive incentive payout/accrual-pro-forma and net of taxes. The actual Utility EPS results will be affected by positive or negative changes in the ERM when computing the plan payout. Occasionally, adjustments to actual results may be deemed necessary. An example of such an adjustment was in 2008 when the positive effect of an accounting error related to Allowance for Funds Used during Construction (AFUDC) was excluded from EPS.

The 2011 guidance for EPS is \$1.47 to \$1.62 for the Utility and \$0.13 to \$0.18 for Non-Utility (Advantage IQ and Other combined). The budget is \$1.54 for the Utility and \$0.16 for Non-Utility. The projected ERM benefit is \$0.07, which is excluded from this information for EPS guidance and budget purposes.

To compute the Utility EPS threshold or minimum level, the Company used budgeted EPS less \$0.02. To compute the target level, the Company used the budgeted EPS plus \$0.03 which reflects zero impact associated with the ERM. To compute the maximum level, the Company added to the top end of the guidance range to create more stretch with respect to budget and guidance. In this Plan, the target is set at \$1.57, minimum at \$1.52 and maximum at \$1.65.

To compute the Non-Utility EPS threshold level, the Company used the low end of the guidance range. To compute the target level, the Company used the budgeted amount.

To compute the maximum level, the Company used the top end of the guidance range. In this Plan, the target is set at \$0.16, minimum at \$0.13 and maximum at \$0.18.

O&M CPC: For this measurement the Company used the total budgeted O&M cost to establish performance goals at different levels. Certain items are excluded from the total budgeted O&M cost such as A/R Sale, Pacesetter, payroll accrual, certain accounting adjustments, and the potential payout for the non-financial measures (customer satisfaction, reliability, response time and Performance Excellence) which are already included in the O&M budget. The Company excludes the amount for the non-financial measures because the Company budgets enough to cover most of the potential payout.

The Company also estimates, at each performance level, the potential payout for the O&M CPC award piece which includes payroll taxes and subtracts the result from the total budgeted O&M cost. The Company uses this methodology in order to build into the performance levels the amount that must be saved in order to pay the incentive. The estimation is based on budget labor costs, employee job levels and corresponding incentive target award opportunities.

Last year the Company used sharing bands where cost reductions were shared between the employee and the Company. In this Plan, the Company continues to use the sharing bands. The performance levels are constructed so that 25% of the first \$2 million in O&M savings is shared with the employees, the other 75% is shared with the Company. Then the next \$3 million in savings is shared 50/50 and any savings in excess of \$5 million is shared 75% with employees. These savings are then subtracted from the total budgeted O&M cost resulting in various levels of performance. The different results are divided by a customer growth target. Using this method, the Company creates varies performance levels: threshold or minimum (10%), target (100%) and exceeds or maximum (150%) for this portion of the plan. In this Plan, the target is set at \$346.85, minimum at \$357.52 and maximum at \$341.70.

Customer Satisfaction: For this measure the Company uses the ratings from question Q3 from the Voice of the Customer survey which measures the customer's *Overall Satisfaction* with the service they received in a recent contact through the call or service center. In this Plan the Company uses the average of the combined "satisfied" and "very satisfied" ratings. The target is set at 90% very satisfied/satisfied for the customer's Overall Satisfaction rating.

Reliability: This index combines SAIFI, CAIDI and CEMI³. To determine the target for the Reliability portion of the Plan, the Company sets a separate target for each metric, weighs them equally and combines them into one metric (see the formula below). In this Plan the target is set at 100%.

$$\text{Index} = \frac{\text{CAIDI Target} / \text{CAIDI Actual}}{3} + \frac{\text{SAIFI Target} / \text{SAIFI Actual}}{3} + \frac{\text{CEMI}^3 \text{ Target} / \text{CEMI}^3 \text{ Actual}}{3}$$

The formula used to set the target for each metric is described below:

- Customer Average Interruption Duration Index (CAIDI): *outage duration multiplied by the number of customers affected for all sustained outages (> 5 minutes), divided by*

the number of customers which had sustained outages. The Company excludes larger outages that impact a significant portion of the service territory, and typically last more than 24 hours from the data per industry practice. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target which is 2 hours and 3 minutes restoration time.

- System Average Interruption Frequency Index (SAIFI): *the number of customers which had sustained outages (> 5 minutes), divided by the number of customers served.* The Company excludes larger outages that impact a significant portion of the service territory, and typically last more than 24 hours from the data per industry practice. In this Plan the Company uses a 5 year average and a standard deviation of 0.72 (76% probability) to set the target which is 1.43 outages per customer.
- Customers Experiencing Multiple Sustained Interruptions more than 3 (CEMI³): *the total number of customers that experience more than 3 sustained outages per year, divided by total number of customers served.* Per industry practice large outages are not excluded from this metric. In this Plan the Company uses a 5 year average with a standard deviation of 0.72 (76% probability) to set the target at 12.8% of our customers.

Response Time: This metric represents the percent of time the Company responds within targeted goals for natural gas emergency calls. The Company sets separate response goals for each type of emergency call: 60 minutes for priority 1 calls (blowing gas, explosions and/or fires, etc.) and 120 minutes for priority 2 calls (inside or outside odors, runaway furnaces, etc.). The Company wants crews and/or serviceman to respond within the targeted response time goal for each type of call. The Company excludes anything below 85% (outliers) from the data. In this Plan the Company uses a 2 year average with a standard deviation of 0.72 (76% probability) to set the target at 93% of the time.

Performance Excellence: This metric measures the Company's performance under the Performance Excellence initiatives. The Company is focused on four key initiatives: Asset Management, Supply Chain, Enterprise Technology and Work & Resource Management. Each initiative has established milestones to complete and each has a projected dollar value represented by net present value and/or avoided costs which may occur outside three years. The Company sets a separate goal for each measurement: complete 102 milestones and achieve \$6.9 million in realized value. In this Plan the Company used 90% of the total to establish the targeted goals for each measurement: 92 (90% of 102) milestones and \$6.2 (90% of \$6.9) million in value. Both measurements must be achieved in order to meet this portion of the incentive award, therefore, the target for this metric is 100%.

Individual Target Award Opportunities: During the February Board meeting, the Committee and the Chief Executive Officer (CEO) jointly review and approve the individual target award opportunities for the participants of the Plan. Each employee has an incentive target award opportunity expressed as a percentage of their base salary. Target opportunities range from 40% to 90% of base salary and are assigned based on position. Actual award payments are calculated based on the employee's target award opportunity in effect as of December 31st and year-end regular earnings (see regular earnings definition under *Exceptions to Eligibility and Circumstances for Proration* section).

% of Base Pay by Position Type	Individual Target Award Opportunity			
	VP	President	Senior VP	CEO
	40%	60%	60%	90%

Incentive amounts in excess of 100% (up to 150%) of an individual's target opportunity may be paid in the form of non-cash equivalents, at the discretion and approval of the CEO and the Committee.

Example Award Calculation:

The Company achieved the targets indicated below:

- Utility EPS = 100.0% on the sliding scale
- Non-Utility EPS = 116.7% on the sliding scale
- Cost per Customer = 130.1% on the sliding scale
- Customer Satisfaction = 100% = met/pass
- Reliability = 100% = met/pass
- Response Time = 100% = met/pass
- Performance Excellence = 0% = not met/fail

Non-CEO Avg base pay = \$252,242 Avg Target Opportunity = 47% = \$118,554

Utility EPS	\$118,554	X	50%	X	100.0%	=	\$59,277
Non-Utility EPS	\$118,554	X	10%	X	116.7%	=	\$13,835
Cost per Customer	\$118,554	X	20%	X	130.1%	=	\$30,848
Customer Satisfaction	\$118,554	X	5%		pass	=	\$5,928
Reliability Index	\$118,554	X	5%		pass	=	\$5,928
Response Time	\$118,554	X	5%		pass	=	\$5,928
Performance Excellence	\$118,554	X	5%		fail	=	\$0.00
Total Payout = \$121,744							

Distribution of Awards: Incentive awards, if earned, will be distributed after the February meeting of the Board of Directors of the next Plan year. In most instances actual amounts will be calculated using the participant's regular year-end earnings, individual target award opportunity and employment status in effect as of December 31st of the Plan year. See the section *Exceptions to Eligibility and Circumstances for Proration* for exceptions.

In order to communicate and calculate payout amounts consistently for each financial based metric, the Company will round results to the nearest 10th percent based on accounting rules. For example, if the O&M CPC result is 130.12% or 130.072%, the Company will use 130.1% to communicate results and calculate the payment of the O&M CPC portion of the award. The non-financial metrics will be communicated and calculated differently. In order to communicate the results for each non-financial based metric, the Company will round results to the nearest whole percent such as 93% for customer satisfaction or 137% for reliability. Unlike the financial metrics which use the final results in the payment calculation (130.1% of the 20% O&M CPC portion of the total award), the non-financial metrics use the percent assigned to the metric (5% customer satisfaction, 5% reliability, 5% response time and 5% Performance Excellence) to calculate the payout amount. For example, if the Company achieves 137% under the Reliability piece, employees will receive 5% of their total award, not 137% of the 5% piece. See detail calculation above.

All incentive awards earned by a participant under this Plan are subject to the Recoupment Policy adopted by the Company's Board of Directors as amended from time to time ("Recoupment Policy"). If a participant becomes subject to the Recoupment Policy any award may be forfeited in whole or in part and all or part of any distribution payable to a participant or his or her beneficiary under this Plan may be recovered by the Company pursuant to the Recoupment Policy.

Administration of Plan: The Committee is responsible for administering the Plan and may delegate specific administrative tasks to corporate staff, as appropriate.

The Committee has the authority to:

- Terminate, amend or modify this Plan in whole or in part for any reason at any time without prior notice to participants
- Modify or adjust financial targets due to extraordinary occurrences and/or significant reorganizations
- Grant discretionary awards up to 15% of the individual target award opportunity

Participation in this Plan should in no way be construed as a contract or promise of employment and/or compensation.

Exceptions to Eligibility and Circumstances for Proration

Proration: Proration is determined by the change of status (COS) date as well as the number of pay periods during the eligibility period. There are 26 pay periods during a Plan year. No matter if the COS date occurs on the first day or the last day of the pay period, the employee would receive credit for the full pay period. For example, an employee who is hired on the third day of the 12th pay period of the year and remains employed throughout the Plan year would be eligible for 15 pay periods of their award.

Regular Earnings: Regular earnings (pensionable earnings) will be used in calculating the awards for employees. The earnings to be used in the calculation are as follows: earnings designated regular, alternative/dual, One Leave (used, sick, & FMLA), short-term disability (100% and 60%), workers compensation, holiday, jury duty, and military pay.

New Hires: Employees hired on or after October 1st will not be eligible for an award under this Plan.

Leave of Absence: Eligible employees on approved unpaid leave of absence during the Plan year may receive an award on a prorated basis. *Short-term disability leave is excluded from this provision and may be eligible to receive awards.*

Resignation/Termination: Any employee who resigns or is terminated for reasons other than retirement, disability or death prior to December 31st will not be eligible to receive an award under this Plan. Employees who are eligible for an award and employed as of December 31st but resign or terminate after the Plan year may receive an award at the time of distribution.

Death, Long-term Disability & Retirement: In the case of death, total disability (as defined under the Company's Long-term Disability Plan) or retirement (as defined under the Retirement Plan for Employees), an eligible employee or estate must have at least 3 full months of service within the Plan year to be eligible to receive an award on a prorated basis.

Discipline or Poor Performance: Employees who receive a **fails to meet** performance rating for the Plan year or a **Last Chance Agreement** under the Company's formal discipline program as of December 31st are not eligible to receive an award under this Plan.

Transfers from Subsidiaries to Corp/Utilities: Eligible employees who transfer from a subsidiary will be treated as a new hire to the Company and all Plan criteria apply as is. Prorated awards are at the discretion of the Committee and CEO.

Other Company Short-term Incentive Plans: Employees can only participate under one formal incentive plan a year. If the employee becomes eligible for a different plan during the year, the Committee and CEO has full discretion to determine which plan the employee may receive an award under. Status and/or time in position may be factors considered in determining whether the employee will receive a prorated award from both plans or an award based on the employee's position and/or status as of December 31st.

Review of Executive Officer Compensation

CONFIDENTIAL Attachment C **Total Utility Executive Officer Base Salary and** **Incentive Amounts**

REDACTED

February 28, 2012

Confidential Attachment C

**Confidential per Protective Order in UTC Dockets
UE-110876 and UG-110877**

Review of Executive Officer Compensation

Attachment D **Avista Corporation Executive Officer Long Term** **Incentive Plan**

February 28, 2012



Long-Term Incentive Plan
Avista Corporation

Adopted by the Shareholders
on May 14, 1998

Amended and Restated
May 13, 2010

AVISTA CORPORATION LONG-TERM INCENTIVE PLAN

SECTION 1. PURPOSE

The purpose of the Avista Corporation Long-Term Incentive Plan (the “Plan”) is to enhance the long-term shareholder value of Avista Corporation, a Washington corporation (the “Company”), by offering opportunities to employees, directors and officers of the Company and its Subsidiaries (as defined in Section 2) to participate in the Company’s growth and success, and to encourage them to remain in the service of the Company and its Subsidiaries and to acquire and maintain stock ownership in the Company.

The Plan was initially adopted by the Company’s shareholders on May 14, 1998 and was subsequently amended and restated on May 12, 2000, January 1, 2005 and November 9, 2006.

SECTION 2. DEFINITIONS

For purposes of the Plan, the following terms are defined as set forth below:

2.1 Award

“Award” means an award or grant made to a Participant pursuant to the Plan, including, without limitation, awards or grants of Options, Stock Appreciation Rights, Stock Awards, Performance Awards, Other Stock-Based Awards or any combination of the foregoing (including any Dividend Equivalent Rights granted in connection with such Awards).

2.2 Board

“Board” means the Board of Directors of the Company.

2.3 Cause

“Cause” means (a) the willful and continued failure of the Holder to perform substantially the Holder’s duties with the Company or one of its Subsidiaries (other than any such failure resulting from incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Holder by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or the Chief Executive Officer believes that the Holder has not substantially performed the Holder’s duties; or (b) the willful engaging by the Holder in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

2.4 *Change of Control*

“Change of Control” means any of the following events:

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either
 - (i) the then outstanding shares of Common Stock of the Company (the “Outstanding Company Common Stock”) or
 - (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2.4;
- (b) A change in the Board so that individuals who constitute the Board (the “Incumbent Board”) as of the date of adoption of the Plan cease for any reason to constitute at least a majority of the Board after such date; provided, however, that any individual becoming a director subsequent to such date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;
- (c) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of Common Stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of

the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of Common Stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the Board of Directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

- (d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

2.5 *Code*

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

2.6 *Common Stock*

“Common Stock” means the common stock, no par value, of the Company.

2.7 *Disability*

“Disability” means “disability” as that term is defined for purposes of the Company's Long-Term Disability Plan or other similar successor plan applicable to salaried employees.

2.8 *Dividend Equivalent Right*

“Dividend Equivalent Right” means an Award granted under Section 13.

2.9 *Early Retirement*

“Early Retirement” means early retirement as that term is defined by the Plan Administrator from time to time for purposes of the Plan.

2.10 *Exchange Act*

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.11 Fair Market Value

The “Fair Market Value” shall be the closing price per share for the Common Stock on the New York Stock Exchange as such price is officially quoted in the composite tape of transactions on such exchange for a single trading day. If there is no such reported price for the Common Stock for the date in question, then such price on the last preceding date for which such price exists shall be determinative of Fair Market Value.

2.12 Good Reason

“Good Reason” means:

- (a) The assignment to the Holder of any duties inconsistent in any respect with the Holder’s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Holder;
- (b) Any failure of the Company to comply with its standard compensation arrangements with the Holder, including the failure to continue in effect any material compensation or benefit plan (or the substantial equivalent thereof) in which the Holder was participating at the time of a Change of Control, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof from the Holder;
- (c) Any purported termination of the Holder’s employment or service for Cause by the Company that does not comply with the terms of the Plan; or
- (d) The failure of the Company to require that any Successor Corporation (whether by purchase, merger, consolidation or otherwise) expressly assume and agree to be bound by the terms of the Plan in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

2.13 Grant Date

“Grant Date” means the date the Plan Administrator adopted the granting resolution or a later date designated in a resolution of the Plan Administrator as the date an Award is to be granted.

2.14 Holder

“Holder” means:

- (a) the Participant to whom an Award is granted;

- (b) for a Holder who has died, the personal representative of the Holder's estate, the person(s) to whom the Holder's rights under the Award have passed by will or by the applicable laws of descent and distribution, or the beneficiary designated in accordance with Section 14; or
- (c) the person(s) to whom an Award has been transferred in accordance with Section 14.

2.15 Incentive Stock Option

"Incentive Stock Option" means an Option to purchase Common Stock granted under Section 7 with the intention that it qualify as an "incentive stock option" as that term is defined in Section 422 of the Code.

2.16 Nonqualified Stock Option

"Nonqualified Stock Option" means an Option to purchase Common Stock granted under Section 7 other than an Incentive Stock Option.

2.17 Option

"Option" means the right to purchase Common Stock granted under Section 7.

2.18 Other Stock-Based Award

"Other Stock-Based Award" means an Award granted under Section 12.

2.19 Participant

"Participant" means an individual who is a Holder of an Award or, as the context may require, any employee, director or officer of the Company or a Subsidiary who has been designated by the Plan Administrator as eligible to participate in the Plan.

2.20 Performance Award

"Performance Award" means an Award granted under Section 11, the payout of which is subject to achievement through a performance period of performance goals prescribed by the Plan Administrator.

2.21 Plan Administrator

"Plan Administrator" means the Board or any committee or committees designated by the Board or any person or persons to whom the Board has delegated authority to administer the Plan under Section 3.1.

2.22 Restricted Stock

“Restricted Stock” means shares of Common Stock granted under Section 10, the rights of ownership of which are subject to restrictions prescribed by the Plan Administrator.

2.23 Retirement

“Retirement” means retirement as of the individual’s normal retirement date under the Company’s retirement plan for salaried employees or other similar successor plan applicable to salaried employees.

2.24 Securities Act

“Securities Act” means the Securities Act of 1933, as amended.

2.25 Stock Appreciation Right

“Stock Appreciation Right” means an Award granted under Section 9.

2.26 Stock Award

“Stock Award” means an Award granted under Section 10.

2.27 Subsidiary

“Subsidiary,” except as provided in Section 8.3 in connection with Incentive Stock Options, means any entity that is directly or indirectly controlled by the Company or in which the Company has a significant ownership interest, as determined by the Plan Administrator, and any entity that may become a direct or indirect parent of the Company.

2.28 Successor Corporation

“Successor Corporation” has the meaning set forth under Section 15.2.

2.29 Trust and Trustee

“Trust” and “Trustee” have the meanings set forth in Section 3.2.

2.30 Trustee Shares

“Trustee Shares” has the meaning set forth in Section 3.3.

SECTION 3. ADMINISTRATION

3.1 Plan Administrator

The Plan shall be administered by the Board or a committee or committees (which term includes subcommittees) appointed by, and consisting of two or more members of the Board. If and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, the Board shall consider in selecting the Plan Administrator and the membership of any committee acting as Plan Administrator, with respect to any persons subject or likely to become subject to Section 16 of the Exchange Act, the provisions regarding (a) “outside directors” as contemplated by Section 162(m) of the Code; (b) “nonemployee directors” as contemplated by Rule 16b-3 under the Exchange Act; and (c) “independent directors” as contemplated by Section 303A.02 of the New York Stock Exchange Listed Company Manual. The Board may delegate the responsibility for administering the Plan with respect to designated classes of eligible Participants to different committees consisting of two or more members of the Board, subject to such limitations as the Board or the Plan Administrator deems appropriate. Committee members shall serve for such term as the Board may determine, subject to removal by the Board at any time. To the extent consistent with applicable law, the Board may authorize one or more senior executive officers of the Company to grant Awards to designated classes of eligible employees within the limits prescribed by the Board.

3.2 Administration and Interpretation by the Plan Administrator

Except for the terms and conditions explicitly set forth in the Plan, the Plan Administrator shall have exclusive authority, in its discretion, to determine all matters relating to Awards under the Plan, including the selection of individuals to be granted Awards, the type of Awards, the number of shares of Common Stock subject to an Award, all terms, conditions, restrictions and limitations, if any, of an Award and the terms of any instrument that evidences the Award, and to authorize the Trustee (the “Trustee”) of any Trust (the “Trust”) that may be required pursuant to the Plan to grant Awards to Participants. The Plan Administrator shall also have exclusive authority to interpret the Plan and may from time to time adopt, and change, rules and regulations of general application for the Plan’s administration. The Plan Administrator’s interpretation of the Plan and its rules and regulations, and all actions taken and determinations made by the Plan Administrator pursuant to the Plan, shall be conclusive and binding on all parties involved or affected. The Plan Administrator may delegate administrative duties to such of the Company’s officers as it so determines.

3.3 Trust for the Long-Term Incentive Plan

Payments may be, but need not be, made to the Trustee, such payments to be used by the Trustee to purchase shares of the Common Stock. Shares purchased by the Trustee pursuant to the terms of the Trust (“Trustee Shares”) shall be held for the benefit of Participants, and shall be distributed to Participants or their beneficiaries by the Trustee at the direction of the Plan Administrator in accordance with the terms and conditions of the Awards. Awards may also be made in units that are redeemable (in whole or in part) in Trustee Shares.

SECTION 4. STOCK SUBJECT TO THE PLAN

4.1 *Authorized Number of Shares*

Subject to adjustment from time to time as provided in Section 15.1, a maximum of 4,500,000 shares of Common Stock (which represents the sum of: (i) 3,500,000 shares that were previously authorized; and (ii) 1,000,000 shares newly authorized by shareholders with this restatement) shall be available for issuance under the Plan. Shares issued under the Plan shall be drawn from authorized and unissued shares or shares now held or subsequently acquired by the Company or, if required by applicable law, shall be purchased by the Trustee on the open market. In the event a Trust is required, the Company shall not issue any Common Stock under the Plan to the Trust or to any Participant, nor shall the Company purchase any Trustee Shares from the Trust.

4.2 *Limitations*

- (a) Subject to adjustment from time to time as provided in Section 15.1, not more than an aggregate of 625,000 shares shall be available for issuance pursuant to grants of Restricted Stock under the Plan.
- (b) Subject to adjustment from time to time as provided in Section 15.1, not more than 200,000 shares of Common Stock may be made subject to Awards under the Plan to any individual Participant in the aggregate in any one fiscal year of the Company, such limitation to be applied in a manner consistent with the requirements of, and only to the extent required for compliance with, the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code.
- (c) Subject to adjustment from time to time as provided in Section 15.1, to the extent consistent with Section 424 of the Code, not more than an aggregate of 80,000 shares may be issued under Incentive Stock Options.

4.3 *Reuse of Shares*

Any shares of Common Stock that have been made subject to an Award that cease to be subject to the Award (other than by reason of exercise or payment of the Award to the extent it is exercised for or settled in shares) shall again be available for issuance in connection with future grants of Awards under the Plan; provided, however, that for purposes of Section 4.2, any such shares shall be counted in accordance with the requirements of Section 162(m) of the Code. Shares that are subject to tandem Awards shall be counted only once.

SECTION 5. ELIGIBILITY

Awards may be granted under the Plan to those officers, directors and employees of the Company and its Subsidiaries as the Plan Administrator from time to time selects.

SECTION 6. AWARDS

6.1 Form and Grant of Awards

The Plan Administrator shall have the authority, in its sole discretion, to determine the type or types of Awards to be made under the Plan; provided, however, after December 31, 2004, the Plan Administrator may only award or grant those Awards that either comply with the applicable requirements of Section 409A of the Code, or do not result in the deferral of compensation within the meaning of Section 409A of the Code. Such Awards may include, but are not limited to, Incentive Stock Options, Nonqualified Stock Options, Stock Appreciation Rights, Stock Awards, Performance Awards, Other Stock-Based Awards and Dividend Equivalent Rights. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of the Company.

6.2 Acquired Company Awards

Notwithstanding anything in the Plan to the contrary, the Plan Administrator may grant Awards under the Plan in substitution for awards issued under other plans, or assume under the Plan awards issued under other plans, if the other plans are or were plans of other acquired entities (“Acquired Entities”) (or the parent of the Acquired Entity) and the new Award is substituted, or the old award is assumed, by reason of a merger, consolidation, acquisition of property or of stock, reorganization or liquidation (the “Acquisition Transaction”); provided, however, any substitution of a new Option pursuant to a corporate transaction for an outstanding option or the assumption of an outstanding option shall meet the requirements of Treasury Regulation §1.424-1. The preceding sentence shall apply to “incentive stock options” as that term is defined in Section 422 of the Code and nonqualified stock options. In the event that a written agreement pursuant to which the Acquisition Transaction is completed is approved by the Board and said agreement sets forth the terms and conditions of the substitution for or assumption of outstanding awards of the Acquired Entity, said terms and conditions shall be deemed to be the action of the Plan Administrator without any further action by the Plan Administrator, except as may be required for compliance with Rule 16b-3 under the Exchange Act, and the persons holding such Awards shall be deemed to be Participants and Holders.

6.3 No Repricing

Other than in connection with a change in the Company’s capitalization as described in Section 15.1 of the Plan, the exercise price of an Option or Stock Appreciation Right may not be reduced without shareholder approval.

6.4 Recoupment of Awards

Notwithstanding any other provision of the Plan, effective for any Award granted on or after February 12, 2010, a Participant who engaged in material misconduct or a material error that contributed directly or indirectly, in whole or in part, to the need for a restatement of the

Company's consolidated financial statements and who becomes subject to the Company's Recoupment Policy as adopted by the Board and as amended from time to time ("Recoupment Policy"), may have all or any portion of his or her Award under this Plan forfeited and/or all or a portion of any distribution payable to the Participant or his or her Beneficiary under the Plan recovered by the Company. All awards and/or dividend equivalents described in the Plan are subject to the provisions of the Recoupment Policy.

SECTION 7. AWARDS OF OPTIONS

7.1 *Grant of Options*

The Plan Administrator is authorized under the Plan, in its sole discretion, to issue Options as Incentive Stock Options or as Nonqualified Stock Options, which shall be appropriately designated.

7.2 *Option Exercise Price*

The exercise price for shares purchased under an Option shall be as determined by the Plan Administrator, but shall not be less than 100% of the Fair Market Value of the Common Stock on the Grant Date.

7.3 *Term of Options*

The term of each Option shall be as established by the Plan Administrator or, if not so established, shall be 10 years from the Grant Date.

7.4 *Exercise of Options*

The Plan Administrator shall establish and set forth in each instrument that evidences an Option the time at which or the installments in which the Option shall vest and become exercisable, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Option, the Option will vest and become exercisable according to the following schedule, which may be waived or modified by the Plan Administrator at any time:

<u>Period of Holder's Continuous Employment or Service With the Company or Its Subsidiaries From the Option Grant Date</u>	<u>Percent of Total Option That Is Vested and Exercisable</u>
After 1 year	25%
After 2 years	50%
After 3 years	75%
After 4 years	100%

Notwithstanding the provisions of Section 7.4 above or of Section 7.6, any unvested portion of the Option shall vest and become exercisable in full immediately upon termination of employment for reasons of Disability or death.

To the extent that the right to purchase shares has accrued thereunder, an Option may be exercised from time to time by written notice to the Company, in accordance with procedures established by the Plan Administrator, setting forth the number of shares with respect to which the Option is being exercised and accompanied by payment in full as described in Section 7.5. The Plan Administrator may determine at any time that an Option may not be exercised as to less than 100 shares at any one time (or the lesser number of remaining shares covered by the Option).

7.5 Payment of Exercise Price

The exercise price for shares purchased under an Option shall be paid in full to the Company by delivery of consideration equal to the product of the Option exercise price and the number of shares purchased. Such consideration must be paid in cash or by check, or, unless the Plan Administrator in its sole discretion determines otherwise, either at the time the Option is granted or at any time before it is exercised, a combination of cash and/or check (if any) and one or both of the following alternative forms:

- (a) tendering (either actually or, if and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, by attestation) Common Stock already owned by the Holder for at least six months (or any shorter period necessary to avoid a charge to the Company's earnings for financial reporting purposes) having a Fair Market Value on the day prior to the exercise date equal to the aggregate Option exercise price or
- (b) if and so long as the Common Stock is registered under Section 12(b) or 12(g) of the Exchange Act, and to the extent not prohibited by Section 402 of the Sarbanes-Oxley Act of 2002, delivery of a properly executed exercise notice, together with irrevocable instructions, to
 - (i) a brokerage firm designated by the Company to deliver promptly to the Company the aggregate amount of sale or loan proceeds to pay the Option exercise price and any withholding tax obligations that may arise in connection with the exercise and
 - (ii) the Company to deliver the certificates for such purchased shares directly to such brokerage firm, all in accordance with the regulations of the Federal Reserve Board.

In addition, the price for shares purchased under an Option may be paid, either singly or in combination with one or more of the alternative forms of payment authorized by this Section 7.5 by such other consideration as the Plan Administrator may permit.

7.6 *Post-Termination Exercises*

The Plan Administrator shall establish and set forth in each instrument that evidences an Option whether the Option will continue to be exercisable, and the terms and conditions of such exercise, if a Holder ceases to be employed by, or to provide services to, the Company or its Subsidiaries, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Option, the Option will be exercisable according to the following terms and conditions, which may be waived or modified by the Plan Administrator at any time.

In case of termination of the Holder's employment or services other than by reason of death or Cause, the Option shall be exercisable, to the extent of the number of shares purchasable by the Holder at the date of such termination, only

- (a) within one year if the termination of the Holder's employment or services is coincident with Retirement, Early Retirement in connection with a Company program offering early retirement or Disability or
- (b) within three months after the date the Holder ceases to be an employee, director, or officer of the Company or a Subsidiary if termination of the Holder's employment or services is for any reason other than Retirement, Early Retirement in connection with a Company program offering early retirement or Disability, but in no event later than the remaining term of the Option. Any Option exercisable at the time of the Holder's death may be exercised, to the extent of the number of shares purchasable by the Holder at the date of the Holder's death, by the personal representative of the Holder's estate, the person(s) to whom the Holder's rights under the Award have passed by will or the applicable laws of descent and distribution or the beneficiary designated pursuant to Section 14 at any time or from time to time within one year after the date of death, but in no event later than the remaining term of the Option. Any portion of an Option that is not exercisable on the date of termination of the Holder's employment or services shall terminate on such date, unless the Plan Administrator determines otherwise. In case of termination of the Holder's employment or services for Cause, the Option shall automatically terminate upon first notification to the Holder of such termination, unless the Plan Administrator determines otherwise. If a Holder's employment or services with the Company are suspended pending an investigation of whether the Holder shall be terminated for Cause, all the Holder's rights under any Option likewise shall be suspended during the period of investigation.

A transfer of employment or services between or among the Company and its Subsidiaries shall not be considered a termination of employment or services for purposes of this Section 7.6. The effect of a Company-approved leave of absence on the terms and conditions of an Option shall be determined by the Plan Administrator, in its sole discretion.

SECTION 8. INCENTIVE STOCK OPTION LIMITATIONS

To the extent required by Section 422 of the Code, Incentive Stock Options shall be subject to the following additional terms and conditions:

8.1 Dollar Limitation

To the extent the aggregate Fair Market Value (determined as of the Grant Date) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time during any calendar year (under the Plan and all other stock option plans of the Company) exceeds \$100,000, such portion in excess of \$100,000 shall be treated as a Nonqualified Stock Option. In the event the Participant holds two or more such Options that become exercisable for the first time in the same calendar year, such limitation shall be applied on the basis of the order in which such Options are granted.

8.2 10% Shareholders

If a Participant owns more than 10% of the total voting power of all classes of the Company's stock, then the exercise price per share of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of the Common Stock on the Grant Date and the Option term shall not exceed five years. The determination of 10% ownership shall be made in accordance with Section 422 of the Code.

8.3 Eligible Employees

Individuals who are not employees of the Company or one of its parent corporations or subsidiary corporations may not be granted Incentive Stock Options. For purposes of this Section 8.3, "parent corporation" and "subsidiary corporation" shall have the meanings attributed to those terms for purposes of Section 422 of the Code.

8.4 Term

The term of an Incentive Stock Option shall not exceed 10 years.

8.5 Exercisability

To qualify for Incentive Stock Option tax treatment, an Option designated as an Incentive Stock Option must be exercised within three months after termination of employment for reasons other than death, except that, in the case of termination of employment due to total disability, such Option must be exercised within one year after such termination. Employment shall not be deemed to continue beyond the first 3 months of a leave of absence unless the Participant's reemployment rights are provided by statute or contract. For purposes of this Section 8.5, "total disability" shall mean a mental or physical impairment of the Participant that is expected to result in death or that has lasted or is expected to last for a continuous period of 12 months or more and that causes the Participant to be unable, in the opinion of the Company and two independent physicians, to perform his or her duties for the Company and to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day

after the Company and the two independent physicians have furnished their opinion of total disability to the Plan Administrator.

8.6 Taxation of Incentive Stock Options

In order to obtain certain tax benefits afforded to Incentive Stock Options under Section 422 of the Code, the Participant must hold the shares issued upon the exercise of an Incentive Stock Option for two years after the Grant Date of the Incentive Stock Option and one year from the date of exercise. A Participant may be subject to the alternative minimum tax at the time of exercise of an Incentive Stock Option. The Plan Administrator may require a Participant to give the Company prompt notice of any disposition of shares acquired by the exercise of an Incentive Stock Option prior to the expiration of such holding periods.

SECTION 9. STOCK APPRECIATION RIGHTS

9.1 Grant of Stock Appreciation Rights

To the extent permitted by Section 6.1, the Plan Administrator may grant a Stock Appreciation Right separately or in tandem with a related Option.

9.2 Tandem Stock Appreciation Rights

A Stock Appreciation Right granted in tandem with a related Option will give the Holder the right to surrender to the Company all or a portion of the related Option and to receive an appreciation distribution (in shares of Common Stock or cash or any combination of shares and cash, as the Plan Administrator, in its sole discretion, shall determine at any time) in an amount equal to the excess of the Fair Market Value for the date the Stock Appreciation Right is exercised over the exercise price per share of the right, which shall be the same as the exercise price of the related Option. A tandem Stock Appreciation Right will have the same other terms and provisions as the related Option. Upon and to the extent a tandem Stock Appreciation Right is exercised, the related Option will terminate.

9.3 Stand-Alone Stock Appreciation Rights

A Stock Appreciation Right granted separately and not in tandem with an Option will give the Holder the right to receive an appreciation distribution (in shares of Common Stock or cash or any combination of shares and cash, as the Plan Administrator, in its sole discretion, shall determine at any time) in an amount equal to the excess of the Fair Market Value for the date the Stock Appreciation Right is exercised over the exercise price per share of the right.

A stand-alone Stock Appreciation Right will have such terms as the Plan Administrator may determine, except that the exercise price per share of the right must be at least equal to 100% of the Fair Market Value on the Grant Date and the term of the right, if not otherwise established by the Plan Administrator, shall be 10 years from the Grant Date.

9.4 Exercise of Stock Appreciation Rights

Unless otherwise provided by the Plan Administrator in the instrument that evidences the Stock Appreciation Right, the provisions of Section 7.6 relating to the termination of a Holder's employment or services shall apply equally, to the extent applicable, to the Holder of a Stock Appreciation Right.

SECTION 10. STOCK AWARDS

10.1 Grant of Stock Awards

To the extent permitted by Section 6.1, the Plan Administrator is authorized to make Awards of Common Stock to Participants on such terms and conditions and subject to such restrictions, if any (which may be based on continuous service with the Company or the achievement of performance goals related to earnings, earnings per share, profits, profit growth, profit-related return ratios, cost management, dividend payout ratios, economic value added, cash flow or total shareholder return, where such goals may be stated in absolute terms or relative to comparison companies), as the Plan Administrator shall determine, in its sole discretion, which terms, conditions and restrictions shall be set forth in the instrument evidencing the Award. The terms, conditions and restrictions that the Plan Administrator shall have the power to determine shall include, without limitation, the manner in which shares subject to Stock Awards are held during the periods they are subject to restrictions and the circumstances under which forfeiture of Restricted Stock shall occur by reason of termination of the Holder's services.

10.2 Issuance of Shares

Upon the satisfaction of any terms, conditions and restrictions prescribed in respect to a Stock Award, or upon the Holder's release from any terms, conditions and restrictions of a Stock Award, as determined by the Plan Administrator, the Company shall release, as soon as practicable, to the Holder or, in the case of the Holder's death, to the personal representative of the Holder's estate or as the appropriate court directs, the appropriate number of shares of Common Stock.

10.3 Waiver of Restrictions

Notwithstanding any other provisions of the Plan, the Plan Administrator may, in its sole discretion, waive the forfeiture period and any other terms, conditions or restrictions on any Restricted Stock under such circumstances and subject to such terms and conditions as the Plan Administrator shall deem appropriate.

SECTION 11. PERFORMANCE AWARDS

11.1 Plan Administrator Authority

Performance Awards may be denominated in cash, shares of Common Stock or any combination thereof. To the extent permitted by Section 6.1, the Plan Administrator is authorized to grant Performance Awards and shall determine the nature, length and starting date of the performance

period for each Performance Award and the performance objectives to be used in valuing Performance Awards and determining the extent to which such Performance Awards have been earned. Performance objectives and other terms may vary from Participant to Participant and between groups of Participants. Performance objectives shall be based on earnings, earnings per share, profits, profit growth, profit-related return ratios, cost management, dividend payout ratios, economic value added, cash flow or total shareholder return, where such goals may be stated in absolute terms or relative to comparison companies, as the Plan Administrator shall determine, in its sole discretion. Additional performance measures may be used to the extent their use would comply with the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code. Performance periods may overlap and Participants may participate simultaneously with respect to Performance Awards that are subject to different performance periods and different performance factors and criteria.

The Plan Administrator shall determine for each Performance Award the range of dollar values or number of shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10), or a combination thereof, to be received by the Participant at the end of the performance period if and to the extent that the relevant measures of performance for such Performance Awards are met. If Performance Awards are denominated in cash, no more than an aggregate maximum dollar value of \$1,000,000 shall be granted to any individual Participant in any one fiscal year of the Company, such limitations to be applied in a manner consistent with the requirements of, and to the extent required for compliance with, the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code. The earned portion of a Performance Award may be paid currently or on a deferred basis with such interest or earnings equivalent as may be determined by the Plan Administrator. Payment shall be made in the form of cash, whole shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10), Options or any combination thereof, either in a single payment or in annual installments, all as the Plan Administrator shall determine.

11.2 Adjustment of Awards

The Plan Administrator may adjust the performance goals and measurements applicable to Performance Awards to take into account changes in law and accounting and tax rules and to make such adjustments as the Plan Administrator deems necessary or appropriate to reflect the inclusion or exclusion of the impact of extraordinary or unusual items, events or circumstances, except that, to the extent required for compliance with the exclusion from the limitation on deductibility of compensation under Section 162(m) of the Code, no adjustment shall be made that would result in an increase in the compensation of any Participant whose compensation is subject to the limitation on deductibility under Section 162(m) of the Code for the applicable year. The Plan Administrator also may adjust the performance goals and measurements applicable to Performance Awards and thereby reduce the amount to be received by any Participant pursuant to such Awards if and to the extent that the Plan Administrator deems it appropriate.

11.3 Payout Upon Termination

The Plan Administrator shall establish and set forth in each instrument that evidences a Performance Award whether the Award will be payable, and the terms and conditions of such

payment, if a Holder ceases to be employed by, or to provide services to, the Company or its Subsidiaries, which provisions may be waived or modified by the Plan Administrator at any time. If not so established in the instrument evidencing the Performance Award, the Award will be payable according to the following terms and conditions, which may be waived or modified by the Plan Administrator at any time. If during a performance period a Participant's employment or services with the Company terminate by reason of the Participant's Retirement, Early Retirement at the Company's request, Disability or death, such Participant shall be entitled to a payment with respect to each outstanding Performance Award at the end of the applicable performance period (a) based, to the extent relevant under the terms of the Award, on the Participant's performance for the portion of such performance period ending on the date of termination and (b) prorated for the portion of the performance period during which the Participant was employed by the Company, all as determined by the Plan Administrator. To the extent consistent with Section 409A of the Code, the Plan Administrator may provide for an earlier payment in settlement of such Performance Award discounted at a reasonable interest rate and otherwise in such amount and under such terms and conditions as the Plan Administrator deems appropriate.

Except as otherwise provided in Section 15 or in the instrument evidencing the Performance Award, if during a performance period a Participant's employment or services with the Company terminate other than by reason of the Participant's Retirement, Early Retirement at the Company's request, Disability or death, then such Participant shall not be entitled to any payment with respect to the Performance Awards relating to such performance period, unless the Plan Administrator shall otherwise determine. The provisions of Section 7.6 regarding leaves of absence and termination for Cause shall apply to Performance Awards.

SECTION 12. OTHER STOCK-BASED AWARDS

To the extent permitted by Section 6.1, the Plan Administrator may grant other Awards under the Plan pursuant to which shares of Common Stock (which may, but need not, be shares of Restricted Stock pursuant to Section 10) are or may in the future be acquired, or Awards denominated in stock units, including ones valued using measures other than market value. Such Other Stock-Based Awards may be granted alone or in addition to or in tandem with any Award of any type granted under the Plan and must be consistent with the Plan's purpose.

SECTION 13. DIVIDEND EQUIVALENT RIGHTS

To the extent permitted by Section 6.1, any Awards under the Plan may, in the Plan Administrator's discretion, earn Dividend Equivalent Rights. In respect of any Award that is outstanding on the dividend record date for Common Stock, the Participant may be credited with an amount equal to the cash or stock dividends or other distributions that would have been paid on the shares of Common Stock covered by such Award had such covered shares been issued and outstanding on such dividend record date. The Plan Administrator shall establish such rules and procedures governing the crediting of Dividend Equivalent Rights, including the timing, form of payment and payment contingencies of such Dividend Equivalent Rights, as it deems are appropriate or necessary.

SECTION 14. ASSIGNABILITY

No Option, Stock Appreciation Right, Stock Award, Performance Award, Other Stock-Based Award or Dividend Equivalent Right granted under the Plan may be assigned or transferred by the Holder other than by will or by the applicable laws of descent and distribution, and, during the Holder's lifetime, such Awards may be exercised only by the Holder or a permitted assignee or transferee of the Holder (as provided below). Notwithstanding the foregoing, and to the extent permitted by Section 422 of the Code, the Plan Administrator, in its sole discretion, may permit such assignment, transfer and exercisability and may permit a Holder of such Awards to designate a beneficiary who may exercise the Award or receive compensation under the Award after the Holder's death; provided, however, that any Award so assigned or transferred shall be subject to all the same terms and conditions contained in the instrument evidencing the Award.

SECTION 15. ADJUSTMENTS

15.1 Adjustment of Shares

In the event that, at any time or from time to time, a stock dividend, stock split, spin-off, combination or exchange of shares, recapitalization, merger, consolidation, distribution to shareholders other than a normal cash dividend or other change in the Company's corporate or capital structure results in (a) the outstanding shares, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of securities of the Company or of any other corporation or (b) new, different or additional securities of the Company or of any other corporation being received by the holders of shares of Common Stock of the Company, then the Plan Administrator shall make proportional adjustments in (i) the maximum number and kind of securities subject to the Plan as set forth in Section 4.1, (ii) the maximum number and kind of securities that may be made subject to Stock Awards and to Awards to any individual Participant as set forth in Section 4.2, and (iii) the number and kind of securities that are subject to any outstanding Award and the per share price of such securities, without any change in the aggregate price to be paid therefor; provided, however, any substitution of a new Option pursuant to a corporate transaction for an outstanding Option or the assumption of an outstanding Option shall meet the requirements of Treasury Regulation §1.424-1. The preceding sentence shall apply to "incentive stock options" as that term is defined in Section 422 of the Code and nonqualified stock options. The determination by the Plan Administrator as to the terms of any of the foregoing adjustments shall be conclusive and binding.

15.2 Change of Control

Except as otherwise provided in the instrument that evidences the Award, in the event of any Change of Control, each Award that is at the time outstanding shall automatically accelerate so that each such Award shall, immediately prior to the specified effective date for the Change of Control, become 100% vested and exercisable. Such Award shall not so accelerate, however, if and to the extent that such Award is, in connection with the Change of Control, either to be assumed by the successor corporation or parent thereof (the "Successor Corporation") or to be replaced with a comparable award for the purchase of shares of the capital stock of the Successor Corporation. The determination of Award comparability under clause (a) above shall be made by

the Plan Administrator, and its determination shall be conclusive and binding. All such Awards shall terminate and cease to remain outstanding immediately following the consummation of the Change of Control, except to the extent assumed by the Successor Corporation. Any such Awards that are assumed or replaced in the Change of Control and do not otherwise accelerate at that time shall be accelerated in the event that the Holder's employment or services should subsequently terminate within three years following such Change of Control, unless such employment or services are terminated by the Successor Corporation for Cause or by the Holder voluntarily without Good Reason.

15.3 Further Adjustment of Awards

Subject to Sections 15.2 and 17.3, and subject to the limitations set forth in Section 11, the Plan Administrator shall have the discretion, exercisable at any time before a sale, merger, consolidation, reorganization, liquidation or other corporate transaction, as defined by the Plan Administrator, to take such further action as it determines to be necessary or advisable, and fair and equitable to Participants, with respect to Awards. Such authorized action may include (but shall not be limited to) establishing, amending or waiving the type, terms, conditions or duration of, or restrictions on, Awards so as to provide for earlier, later, extended or additional time for exercise, payment or settlement or lifting restrictions, differing methods for calculating payments or settlements, alternate forms and amounts of payments and settlements and other modifications, and the Plan Administrator may take such actions with respect to all Participants, to certain categories of Participants or only to individual Participants; provided, however, the Plan Administrator may act only in a manner that either complies with the applicable requirements of Section 409A of the Code, or does not result in the deferral of compensation within the meaning of Section 409A of the Code. The Plan Administrator may take such action before or after granting Awards to which the action relates and before or after any public announcement with respect to such sale, merger, consolidation, reorganization, liquidation or Change of Control that is the reason for such action.

15.4 Limitations

The grant of Awards will in no way affect the Company's right to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

SECTION 16. WITHHOLDING

The Company may require the Holder to pay to the Company the amount of any withholding taxes that the Company is required to withhold with respect to the grant, exercise, payment or settlement of any Award. Subject to the Plan and applicable law and unless the Plan Administrator determines otherwise, the Holder may satisfy withholding obligations, in whole or in part, by paying cash, by electing to have the Company withhold shares of Common Stock (up to the employer's minimum required tax withholding rate) or by transferring shares of Common Stock to the Company (already owned by the Participant for the period necessary to avoid a charge to the Company's earnings for financial reporting purposes), in such amounts as are equivalent to the Fair Market Value of the withholding obligation. The Company shall have the right to withhold from any Award or any shares of Common Stock issuable pursuant to an

Award or from any cash amounts otherwise due or to become due from the Company to the Participant an amount equal to such taxes.

SECTION 17. AMENDMENT AND TERMINATION OF PLAN

17.1 Amendment of Plan

The Plan may be amended only by the Board as it shall deem advisable; provided, however, (i) the Board shall consider the impact of Section 409A of the Code on any amendment; and (ii) to the extent required for compliance with Section 422 of the Code or any other applicable law, rule or regulation, shareholder approval will be required for any amendment that will (a) increase the total number of shares as to which Options may be granted or that may be used in payment of Stock Appreciation Rights, Performance Awards, Other Stock-Based Awards or Dividend Equivalent Rights under the Plan or that may be issued as Stock Awards, (b) modify the class of persons eligible to receive Options, (c) result in a “material revision” of the Plan as contemplated by Section 303A.08 of the New York Stock Exchange Listed Company Manual, or (d) otherwise require shareholder approval under any applicable law, rule or regulation.

17.2 Termination of Plan

The Board may suspend or terminate the Plan at any time. The Plan will have no fixed expiration date; provided, however, that no Incentive Stock Options may be granted more than 10 years after the earlier of the Plan’s adoption by the Board and approval by the shareholders. In accordance with Treasury Regulations §§1.422-2(b)(iii) and 1.422-2(c), the amendment and restatement of the Plan effective January 1, 2005 constitutes a new plan for purposes of the Incentive Stock Option rules. As a result, Incentive Stock Options may be granted within ten years from the earlier of the date the amended and restated plan is adopted by the Board or the date such plan is approved by shareholders.

17.3 Consent of Holder

The amendment or termination of the Plan shall not, without the consent of the Holder of any Award under the Plan, impair or diminish any rights or obligations under any Award theretofore granted under the Plan. Any change or adjustment to an outstanding Incentive Stock Option shall not, without the consent of the Holder, be made in a manner so as to constitute a “modification” that would cause such Incentive Stock Option to fail to continue to qualify as an Incentive Stock Option.

SECTION 18. GENERAL

18.1 Award Agreements

Awards granted under the Plan shall be evidenced by a written agreement that shall contain such terms, conditions, limitations and restrictions as the Plan Administrator shall deem advisable and that are not inconsistent with the Plan.

18.2 Continued Employment or Services; Rights in Awards

None of the Plan, participation in the Plan as a Participant or any action of the Plan Administrator taken under the Plan shall be construed as giving any Participant or employee of the Company any right to be retained in the employ of the Company or limit the Company's right to terminate the employment or services of the Participant.

18.3 Registration

The Company shall be under no obligation to any Participant to register for offering or resale or to qualify for exemption under the Securities Act, or to register or qualify under state securities laws, any shares of Common Stock, security or interest in a security paid or issued under, or created by, the Plan, or to continue in effect any such registrations or qualifications if made.

The Company may issue certificates for shares with such legends and subject to such restrictions on transfer and stop-transfer instructions as counsel for the Company deems necessary or desirable for compliance by the Company with federal and state securities laws.

Inability of the Company to obtain, from any regulatory body having jurisdiction, the authority deemed by the Company's counsel to be necessary for the lawful issuance and sale of any shares hereunder or the unavailability of an exemption from registration for the issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the nonissuance or sale of such shares as to which such requisite authority shall not have been obtained.

18.4 No Rights as a Shareholder

No Award shall entitle the Holder to any cash dividend (except to the extent provided in an Award of Dividend Equivalent Rights), voting or other right of a shareholder unless and until the date of issuance under the Plan of the shares that are the subject of such Award, free of all applicable restrictions.

18.5 Compliance With Laws and Regulations

Notwithstanding anything in the Plan to the contrary, the Board, in its sole discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan to Participants who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Participants. Additionally, in interpreting and applying the provisions of the Plan, any Option granted as an Incentive Stock Option pursuant to the Plan shall, to the extent permitted by law, be construed as an "incentive stock option" within the meaning of Section 422 of the Code.

18.6 Unfunded Plan

The Plan is intended to constitute an "unfunded" plan. Nothing contained herein shall require the Company to segregate any monies or other property, or shares of Common Stock, or to create any trusts, or to make any special deposits for any immediate or deferred amounts payable to any

Participant, and no Participant shall have any rights that are greater than those of a general unsecured creditor of the Company.

18.7 Severability

If any provision of the Plan or any Award is determined to be invalid, illegal or unenforceable in any jurisdiction, or as to any person, or would disqualify the Plan or any Award under any law deemed applicable by the Plan Administrator, such provision shall be construed or deemed amended to conform to applicable laws, or, if it cannot be so construed or deemed amended without, in the Plan Administrator's determination, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan and any such Award shall remain in full force and effect.

SECTION 19. EFFECTIVE DATE

The Plan's effective date is the date on which it is adopted by the Board, so long as it is approved by the Company's shareholders at any time within 12 months of such adoption.

Review of Executive Officer Compensation

Attachment E 2011 Employee Benefit Summary

February 28, 2012



EMPLOYEE BENEFIT SUMMARY

Avista Corp
Non-Bargaining
(Regular Full Time Employees)

January 1, 2011 – December 31, 2011

TABLE OF CONTENTS

LIFE INSURANCE	
Company Provided Life Insurance Plan (Base Life)	3
MetLife Optional Life Insurance Plans	4-5
Accidental Death & Dismemberment (AD&D) Life Insurance Plan.....	6-7
EMPLOYEE ASSISTANCE PROGRAMS	
Employee Assistance Program (EAP).....	8
Tuition Aid	9
Adoption	10
Jury Duty	11
MEDICAL / DENTAL INSURANCE	
Premera Blue Cross Medical Plan.....	12-16
Group Health Medical Plan.....	17-19
Washington Dental Service (Dental Plan).....	20
Retiree Medical.....	21
PAID TIME OFF	
Holidays.....	22
FMLA (Family Medical Leave Act).....	23
Worker's Compensation.....	24
Short Term Disability (STD).....	25-26
Long Term Disability (LTD).....	27
One Leave.....	28-29
PRE-TAX PROGRAMS	
Health Care and Dependent Care Reimbursement Plans.....	30
Premium Payment Plan	31
RETIREMENT & 401(k) INVESTMENT PLANS	
Investment Plan - 401(k).....	32-33
Retirement Bonus / HRA Contribution.....	34-35
Healthy Directions (HRA) Plan (Premera Blue Cross Participants).....	36-37
Retirement Plan.....	38-42
OTHER	
Long Term Care Insurance.....	43-44
MetLaw Hyatt legal services plan.....	45-46
HIPPA Privacy Statement	47-50

Avista Corp. Group Life Insurance (Basic Life Insurance)

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

COST TO YOU

The Company pays the cost of the insurance in full.

COVERAGE FOR YOU

1. Employees *not yet 40 years of age on 7/1/97:*
 - ◆ 1 x annual base pay rounded to the nearest \$1,000, *but not to exceed \$50,000.*
2. Employees *40 years of age, but not yet 60 years of age on 7/1/97:*
 - ◆ 1 x your annual base pay rounded to the nearest \$1,000, *but not to exceed \$75,000.*
1. Employees *60 years of age or older on 7/1/97:*
 - ◆ 1 x your annual base pay rounded to the nearest \$1,000, *but not to exceed \$250,000.*

Note: Employees hired on and after 7/1/97 regardless of age, will have coverage of 1 x annual base pay rounded to the nearest \$1,000, but not to exceed \$50,000.

COVERAGE WHEN YOU RETIREE

1. Employees *not yet 40 years of age on 7/1/97:*
 - ◆ \$5,000
2. Employees *40 years of age, but not yet 60 years of age on 7/1/97:*
 - ◆ 1 x your annual pension to the nearest \$100, but not to exceed \$20,000.

Note: \$20,000 currently exceeds the average annual pension to the nearest \$100.

3. Employees *60 years of age or older on 7/1/97:*
 - ◆ 1 x your annual pension to the nearest \$100.

Note: Employees hired on and after 7/1/97 will have NO Company provided Life Insurance upon retirement.

IF YOU LEAVE THE COMPANY

Coverage ends.

Visit the HR website on Avonet for more complete Plan details.

Avista Corp.
MetLife Optional Life Insurance Protection Program
With Dependent Life Insurance Coverage

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

OPTIONAL LIFE

Employees can choose one of the following options:

- OPTION 1: 1 times your base annual earnings
- OPTION 2: 2 times your base annual earnings
- OPTION 3: 3 times your base annual earnings
- OPTION 4: 4 times your base annual earnings
- OPTION 5: 5 times your base annual earnings

The maximum amount of Optional Life coverage you can receive is \$500,000

You may enroll for Optional Life Insurance **without** providing a Statement of Health form as long as you are actively at work and the following conditions are met:

- Your enrollment takes place within 31 days of becoming eligible for benefits / prior to the enrollment period deadline
- You have not been hospitalized within 90 days of enrollment
- You are enrolling for coverage that does not exceed 1 times your base annual earnings or receive, due to an increase in your earnings, an increase in the amount of Optional Life Benefits of \$25,000.

You will need to submit a Statement of Health form if you do not meet the conditions stated above.

DEPENDENT COVERAGE

Spouse: Multiples of \$10,000, up to the lesser of 50% of your Life Benefits and \$100,000

Child: \$2,000, \$5,000, or \$10,000, not to exceed 50% of the Employee's Life Benefit Amount.

You may enroll your Dependent Spouse or Child for *Dependent Life Insurance* **without** providing a Statement of Health form as long as your spouse and/or child are performing their normal activities and the following conditions are met:

- Your enrollment takes place within 31 days of becoming eligible for benefits / prior to the enrollment period deadline
- Your dependent has not been hospitalized within 90 days of enrollment
- Your spouse and/or child is enrolling for coverage that does not exceed \$50,000; or receive an increase in the amount of Dependent Life Benefits of \$25,000 or more if your Dependent spouse is already covered for an amount of Dependent Life Benefits greater than \$50,000.

Your dependents will need to submit a Statement of Health form if he/she does not meet the conditions stated above.

RETIREE OPTIONAL LIFE AND DEPENDENT LIFE

The amounts of your Optional Life and Dependent Life Benefits can be continued into retirement. No new elections or benefit increases can be made at or after retirement, though enrollees may reduce benefits.

ELIGIBILITY

Employee: To be eligible for coverage, you must be actively at work on the effective date. This means a person who is employed and paid for services by the Employer on a regular or full-time basis, and part-time regularly scheduled to work 20 or more hours per week.

Spouse: To be eligible for coverage, your dependent spouse must be performing his/her normal activities, which means your spouse is not confined at home or under the care of a doctor due to sickness or injury or is receiving or eligible to receive any disability income from any source due to sickness or injury. You must enroll for employee coverage to be eligible for coverage.

If your dependent spouse is an employee of Avista Corporation, your spouse can enroll for coverage as an employee or spouse, but not both.

Children: Dependent children ages 14 days to 19 years old, or 23 years old if a child is a full-time student, are eligible for coverage. Eligible children include those who are legally adopted and stepchildren living in your home. Covered children who remain dependent upon you for support due to a mental or physical handicap (that occurred prior to their reaching the limiting age) will continue to be covered with no age limit.

Children must be performing their normal activities, which means your children are not confined at home or under the care of a doctor due to sickness or injury or be receiving or eligible to receive any disability income from any source due to sickness or injury. The employee must enroll to be eligible for coverage.

TO ENROLL

Contact Human Resources for a MetLife enrollment packet. Upon MetLife's review of your form(s), additional medical information may be required based on you and/or your dependent's health status, and coverage amount elected. You will be advised when coverage is approved or if additional information is needed.

COST TO YOU

Rates (cost per \$1,000 of coverage) are based on employee/spouse age. Premiums will increase or decrease accordingly dependent on age, salary, and coverage levels. Premiums will automatically increase as employee or spouse's age reaches increased age brackets.

Age	<i>Employee Rate</i> (Rate Per\$1,000 of Coverage)	<i>Spouse Rate</i> (Rate Per\$1,000 of Coverage)
Less Than 30	\$.07	\$.06
30-34	.09	.08
35-39	.11	.10
40-44	.15	.13
45-49	.21	.18
50-54	.38	.33
55-59	.66	.58
60-64	.85	.75
65+	1.36	1.19

**Child(ren) Rate: Cost is \$.10 per \$1,000 of coverage and covers all eligible children, regardless of number.

Avista Corp.
Accidental Death & Dismemberment Insurance (AD&D)

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

COST TO YOU

Principal Sum	Employee Only	Employee & Family
\$25,000	\$ 0.75	\$1.25
50,000	1.50	2.50
75,000	2.25	3.75
100,000	3.00	5.00
125,000	3.75	6.25
150,000	4.50	7.50
175,000	5.25	8.75
200,000	6.00	10.00
225,000	6.75	11.25
250,000	7.50	12.50

For amounts above \$150,000, the Principal Sum requested cannot exceed the lesser of 10 times your Salary on the date of the request, or the Maximum shown above.

Eligible Dependents: Eligible Person’s Spouse and Child(ren)

Policy Age Limit: Insured Person – None
Spouse – 70

ACCIDENTAL DEATH AND DISMEMBERMENT BENEFIT

If a Covered Person’s Injury results in any of the following Losses within 365 days after the date of accident, we will pay the sum shown opposite the Loss. We will not pay more than the Principal Sum for all Losses due to the same accident. Your amount of the Principal Sum is determined in the Enrollment Form on file with the Policyholder. The amount of Principal Sum for each of your Covered Dependents is shown below as a percent of your Principal Sum.

You with:*	Spouse	Each Child
Spouse Only	60%	0%
Spouse & Children	40	10
Children Only	0	20

*As determined on the date of the accident.

Life	The Principal Sum
Both Hands or Both Feet or Sight of Both Eyes	The Principal Sum
One Hand and One Foot	The Principal Sum
Speech and Hearing	The Principal Sum
Either Hand or Foot and Sight of One Eye	The Principal Sum
Movement of Both Upper and Lower Limbs (quadriplegia)	The Principal Sum
Movement of Both Lower Limbs (Paraplegia)	Three-Quarters The Principal Sum
Movement of Both Upper and Lower Limbs of One Side of the Body (Hemiplegia)	One-Half The Principal Sum
Either Hand or Foot	One-Half The Principal Sum
Sight of One Eye	One-Half The Principal Sum
Speech or Hearing	One-Half The Principal Sum
Thumb and Index Finger of Either Hand	One-Quarter The Principal Sum

Avista Corp.
APS Employee Assistance Program (EAP)
1-800-999-1077

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

Overview

Being healthy goes beyond physical exercise and eating right. Emotional wellness, strong personal relationships and positive attitudes are critical building blocks of health. At times, we may feel unable to resolve all the decisions, personal problems, family issues or career challenges we face. In such times, it's a relief to have someplace to turn.

Your Employee Assistance Program

Your Employee Assistance Program (EAP) from APS Healthcare fills this need. These professional support services are designed to help you and your household members cope with a variety of personal and career-related concerns. They are provided in collaboration with your employer or health insurer.

- Professional, confidential counseling for you and your household members
- No out-of-pocket costs
- Prompt, convenient and timely counseling
- Referral to community programs or services, if necessary
- Toll-free, 24 hour service number

The decision to use your EAP benefit is voluntary and confidential. To speak with an EAP professional or to schedule an appointment, please call: **1-800-999-1077**. EAP services are available 24 hours a day, seven days a week.

Professional Support Services

APS Healthcare EAP professionals are experienced, caring individuals who hold master or doctoral degrees in counseling or a related field. They are certified or licensed by the appropriate state agency. EAP services are provided for a wide range of issues such as:

- | | |
|-----------------|-------------------|
| ◆ Abuse | ◆ Managing Stress |
| ◆ Aging | ◆ Marriage |
| ◆ Alcohol/Drugs | ◆ Parenting |
| ◆ Depression | ◆ Relationships |
| ◆ Family | ◆ Workplace |
| ◆ Grief | |

Many problems can be addressed directly with your EAP professional, but some may require referral to other resources that could involve out-of-pocket cost. Depending on your health plan benefits, your EAP professional will work with you to identify the most appropriate and affordable resources to help meet your needs.

Avista Corp. Tuition Aid Program

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

AVISTA Corp. will provide financial assistance to employees for approved courses when these can be shown to reasonably add to the employee's improved performance and effectiveness in present or foreseeable future jobs within the Company.

Tuition aid of up to \$2,500 in any calendar year is available for the cost of tuition and books. Tuition and the required class related fees billed by the institution are reimbursed at 100%, and books are covered at 50%. Supplies, software, equipment, parking or other non-tuition fees are not covered costs. Any course required to complete an undergraduate or masters level program is covered.

Regular, full-time or regularly scheduled part-time employees are eligible for tuition aid if:

- ◆ the course is offered by an approved and accredited college, university, or academic institution
- ◆ the course is necessary to satisfy a requirement for a degree program
- ◆ the employee provides verification of satisfactory course completion

Tuition is granted based on the following schedule:

- ◆ Employee receives tuition reimbursement for classes completed with a grade of C (2.0) or better. Grades below a C, or courses dropped, will not receive financial support.
- ◆ Employees who voluntarily terminate their employment before completing the course(s) will not receive reimbursement.
- ◆ By signing the tuition aid application, employee agrees to these terms.

PROCEDURE:

1. Complete the Tuition Aid Application and have your supervisor sign it to approve the course or degree program.
2. Pay for your tuition and books and retain **all** receipts.
3. After completing the class (es) and receiving your grade(s) of a C (2.0) or better, submit the completed application, copies of all receipts, and grade(s) to the Tuition Aid Coordinator in the Human Resources Department at MSC-39.

Accounts payable will then notify you when your reimbursement is ready. Please allow up to three weeks for reimbursement.

Avista Corp. Adoption Assistance Program

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

NOTICE: Because the determination of how to take maximum advantage of the tax credit versus the employer exclusion can be complicated, it is strongly advised that you seek consultation with a tax advisor even before submitting expenses for employer reimbursement under this plan.

You will need to decide to what extent you want to submit expenses for employer reimbursement versus using the tax credit. Generally the tax credit is more favorable because, unlike an employer reimbursement, it is not subject to FICA tax. However, most employees with adoption expenses will probably want to submit at least some expenses for employer reimbursement after taking maximum advantage of the tax credit. Again, it is strongly advised that you seek consultation with a tax advisor even before submitting expenses for employer reimbursement under this plan.

See Publication 968 “Tax Benefits for Adoption” at www.irs.gov for more information.

How the Plan Works

To support your decision to adopt an “eligible child”, the Company will provide eligible employees \$2,000 per adopted child to mitigate “qualified” adoption expenses.

Employees must provide the employer with reasonable substantiation that payments or reimbursements made under the plan constitute “qualified” adoption expenses.

Definitions of “Qualified” Adoption Expense and “Eligible Child”

“Qualified” adoption expenses are reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses (including amounts spent for meals and lodging) while away from home, and other expenses directly-related to, and whose principal purpose is for, the legal adoption of an eligible child.

Nonqualifying expenses. Qualifying adoption expenses do not include expenses:

- That violate state or federal law,
- For carrying out any surrogate parenting arrangement,
- For the adoption of your spouse’s child,
- Paid using funds received from any federal, state, or local program,
- Allowed as a credit or deduction under any other federal income tax rule, or
- Paid or reimbursed by your employer or otherwise (except that amounts paid or reimbursed under an adoption assistance program may be qualifying expenses for the exclusion).

An “eligible child” is defined as any individual who, at the time a qualified adoption expense is paid or incurred, is under the age of 18 or is physically or mentally incapable of caring for himself or herself.

W-2 Reporting

All of the adoption assistance payment will be shown in box 12 of your Form W-2, identified with the letter “T.” None of the payments will be included with your taxable wages in box 1 of your Form W-2.

Avista Corp. Jury Duty

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

HOW THE JURY DUTY BENEFIT WORKS

To encourage civic duty, you may serve on jury duty and receive pay from the Company for the time served based upon your scheduled work hours. You will be expected to work at your regular duties for days or partial days while not on duty.

For example: A part-time employee scheduled to work 20 hours per week, would receive 20 hours of "jury duty" pay as long as they were serving during their regular scheduled work hours. Employees are NOT allowed to receive more pay than their scheduled work hours. (i.e. If you normally work 4 hours per day, but serve on the jury for 8 hours, you will receive 4 hours of "jury duty" pay from the Company)

Employees are **not** required to "pay back" to the Company any daily stipend allowance provided by the court.

Visit the HR website on Avonet for more complete Plan details.

Avista Corp. Medical Insurance: Premera Blue Cross Plan

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- Temporary employee hired for 6 months or longer
- **Employees classified as Casual or Students are not eligible.**

Coverage for new hires begins on the first day of the month following their date of hire.

NOTE: Employees of Avista that are married to one another are prohibited from covering each other under the Premera Blue Cross Medical Plan. Each employee can enroll as a subscriber, or one may elect to cover the spouse as a dependent, but not both. The plan does not allow married employees to attempt to "double cover" themselves or family members.

COST TO YOU

Coverage Level	Employee Cost	Co. Cost	Total
E only	\$63.79	\$574.11	\$637.90
E + Spouse	\$119.77	\$1,077.93	\$1,197.70
E +Child(ren)	\$107.58	\$968.17	\$1,075.75
E +All	\$162.95	\$1,466.59	\$1,629.54

HOW SELF-INSURED PLAN WORKS

The Avista PLAN is a self-insured plan that is a "Preferred Provider" plan, and includes coverage for medical, dental, prescription drugs, and vision care. A third-party administrator processes and pays claims for the Avista Plan. Participants residing in the Preferred Provider service area must utilize physicians from the Preferred Provider listing to receive maximum benefits. If you obtain service from a Provider who is not preferred, your benefits will be paid at a lesser amount and some benefits will not be covered at all.

DEPENDENT ELIGIBILITY

Must be a lawful spouse or an eligible child.

Child eligibility to age 26.

It is the subscriber's responsibility to maintain accurate and timely dependent eligibility information. The employee must inform the Benefits Department within 30 days of a qualifying event of a dependent no longer being eligible. Coverage for that dependent will end on the last day of the month in which the qualifying event occurs.

**Visit the HR website on Avamet for more complete Plan details.
Medical Insurance: Premera Blue Cross Plan**

Coverage	Effective 1/1/11
Annual Deductible	\$300 per person / \$900 per family
Coinsurance	80%
Coinsurance Maximum	\$500 per person / \$1500 family
Annual Maximum Benefit	\$1,000,000
Out-of-Network Deductible & Coinsurance	\$400 Deductible \$1000 Coinsurance
Annual Physical (Including Lab & X-ray)	100%
Injections (Including allergy injections)	100%
Mammograms	100%
Minor Emergency or Urgent Care Facility (Professional Services)	\$20 co-pay
Physician Office Visits	\$20 co-pay
Specialist Visits	\$20 co-pay
Outpatient hospital and skilled nursing facility visits (Professional Services)	\$20 co-pay
Surgery performed in an outpatient surgical center (Professional Services)	\$20 co-pay
Inpatient visits for medical and surgical services (Professional Services)	\$20 co-pay
Well Baby Care	100% (for first yr. No visit limit)

Diagnostic-Therapeutic Lab & X-ray		Preventative: 100% Minor: \$20 Co-pay Major: Deductible and 80%
Chiropractic		\$20 Co-pay (Maximum \$1,000 per year)
Neurodevelopmental Therapies		\$20 Co-pay (Max \$2500 per person per year under age 6)
Mental Health Services		Outpatient: \$20 Co-Pay Inpatient Deductible and 80%
Chemical Dependency Treatment		Inpatient: Deductible and 80% Outpatient: \$20 Co-pay
Ambulance Services		Deductible and 80%
MRI		Deductible and 80%
Durable Medical Equipment and Supplies		Deductible and 80%
Orthotics		Deductible and 80%
Orthopedic Appliances		Deductible and 80%
Skilled Nursing Facility		Deductible and 80%

Special Nursing Care		Deductible and 80% (Max \$1000 per person per year)
Hearing Aids (Employee only)		Medically necessary hearing aids covered at 100% once every 5 years to a maximum of \$1000
Home Health Care		Provided at 100% (Max 130 visits per person per year)
Hospice Services		100% (lifetime max 6 months)
Hospital Services		Deductible and 80%
Infertility Services		Deductible and 80% (Max \$2000 per year and a lifetime max of \$6000)
Health Education Network		50% to a max of \$250 per person per year
		Outpatient Therapy Bundled Services
1) Physical Therapy		\$20 Co-Pay (14 visits per calendar year)
2) Cardiac Rehabilitation Outpatient Therapy		
3) Speech Therapy (Children under age 18)		
		Inpatient Therapy Bundled Services
Inpatient Rehabilitation Services:		Deductible and 80% (Up to \$5,000 + additional \$15,000 for stroke or spinal cord injury)
Prescription Plan		\$5 / \$20 / \$40 co-pay
Vision Plan (Routine Eye Exam)		\$20 co-pay

Prescriptions

Generic Prescriptions:	(30-day supply): \$5.00 co-pay for Generic Drugs
Brand Name Prescriptions:	(30-day supply) (When a generic drug is <u>not</u> available): \$20.00 co-pay for Non-Generic when Generic is <u>not</u> available
Brand Name Prescriptions:	(30-day supply) (When a generic drug <u>is</u> available): \$40 co-pay for Non-Generic drugs when a generic <u>is</u> available
Birth Control Pills:	Birth Control Pills are covered under the prescription drug provision. ("Over -the-counter" birth control items are <u>not</u> covered under the plan) Contact Premera Blue Cross directly for more information regarding birth control.

Every Employee Should Take Advantage of the Home Delivery Pharmacy Service

With prescription costs increasing 20% - 25% annually, Avista encourages all employees to do their part in keeping costs down by utilizing Generic drugs whenever possible and also to take advantage of the Home Delivery Pharmacy Service (Mail Order Prescription Program).

This program is an expansion of your current prescription drug benefit program. It is ideal for people who take prescription medication on an ongoing basis. Listed below are several advantages to this program that are detailed in the enclosed Home Delivery Pharmacy Service materials:

- **Immediate Savings:** When you order by mail you can get up to a 90-day supply for only one copayment.
- **Convenience:** You save time by simply mailing your prescriptions to Merck-Medco. Merck-Medco will send your prescription to your home via US mail, postage paid.

Contact Human Resources at ext. 4751 to obtain order forms and an informational brochure.

Vision Benefits

Routine Eye Exam:	Paid at 100% after \$20 co-pay once per calendar year.
Lenses:	
Frames:	
Contacts:	\$150 per year allowance for: Lenses, frames or contacts once per calendar year.

Avista Corp. Group Health Cooperative Medical Plan

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- Temporary employee hired for 6 months or longer
- **Employees classified as Casual or Students are not eligible.**

Coverage for new hires begins on the first day of the month following their date of hire.

NOTE: Employees of Avista that are married to one another are prohibited from covering each other under the Group Health Cooperative Medical Plan. Each employee can enroll as a subscriber, or one may elect to cover the spouse as a dependent, but not both. The plan does not allow married employees to attempt to "double cover" themselves or family members.

HOW THE GROUP HEALTH NORTHWEST PLAN WORKS

Group Health Cooperative is a Health Maintenance Organization with 143 Family Practice Specialists available and over 360 community specialists available upon referral by your Group Health personal physician. You choose from GHNW Medical Centers, Rockwood Clinic, or numerous other community physician partners for your care. A 24 hr consulting nurse is available for medical advice on holidays, weekends and after hours by calling 324-6464 or 1-800-826-3620. Group Health emphasizes preventative care and early detection and treatment of medical conditions.

COST TO YOU

Coverage Level	Employee Cost	Co. Cost	Total
E only	\$63.79	\$565.40	\$629.19
E +Spouse	\$119.77	\$1,068.94	\$1,188.71
E +Child(ren)	\$107.58	\$956.78	\$1,064.36
E +Family	\$162.95	\$1,455.16	\$1,618.11

SUMMARY OF BENEFITS

This is a brief summary of benefits and limitations. **THIS IS NOT A CONTRACT.** For a more detailed description of your benefits and exclusions, refer to your certificate of coverage or contact your employer or benefits administrator.

Plan Deductible

No annual deductible.

Individual Deductible Carryover

Not applicable

Plan Coinsurance

No Plan coinsurance

Out-of-Pocket Limit

Individual out-of-pocket limit: \$2,000

Family out-of-pocket limit: \$4,000

Out-of-pocket expenses for the following covered services are included in the out-of-pocket limit:

Inpatient services, outpatient services, emergency services at a GHC or non-GHC facility, ambulance services

Pre-existing condition (PEC) waiting period

No PEC

Lifetime maximum

Unlimited

**Outpatient Services
(Office Visits)**

\$20 copay

Hospital Services

Inpatient Services: \$100 /\$500, per calendar year

Outpatient surgery: \$20 copay

Prescription Drugs
(some injectable drugs may be covered under Outpatient services)

Formulary generic and/or brand \$15 copay per 30 day supply

Prescription Mail Order

2x prescription cost share per 90 day supply

Acupuncture

Self-referred up to 8 visits per medical diagnosis per calendar year, additional visits when approved by the plan \$20 copay

Ambulance Services

Plan pays 80%, you pay 20%

Chemical Dependency

Inpatient: \$100 / \$500, per calendar year

Outpatient: \$20 copay

Devices, equipment and supplies

Durable medical equipment, orthopedic appliances, post-masectomy bras limited to two (2) every six (6) months, ostomy supplies, and prosthetic devices

Covered at 50%

Diabetic Supplies

Insulin, needles, syringes and lancets---see Prescription drugs. External insulin pumps, blood glucose monitors, testing reagents and supplies----see Devices, equipment and Supplies. When Devices, equipment and supplies or Prescription drugs are covered and have benefit limits, diabetic supplies are not subject to these limits

Diagnostic lab and X-ray Services

Inpatient: Covered under Hospital services

Outpatient: Covered in full

High end radiology imaging services such as a CT, MR and PET must be determined Medically Necessary and require preauthorization except when associated with Emergency care or inpatient services.

Emergency Services

\$75 copay at a designated facility
\$75 copay at a non designated facility

Hearing Exams (routine)

\$20 copay

Hearing Hardware

Not Covered

Home Health Services

Covered in full. No Visit limit

Infertility Services

50% diagnostic services and drugs

Manipulative therapy

Self-referred up to 10 visits per calendar year
\$20 copay

Massage Services

See Rehabilitation services

Maternity Services

Inpatient: \$100 / \$500, per calendar year

Outpatient \$20 copay

Routine Vision Care (1 visit every 12 months)

\$20 copay
\$150 hardware benefit per 24 months

 **DELTA DENTAL**
Washington Dental Service
1-800-554-1907 www.DeltaDentalWA.com

Washington Dental Service (Delta Dental PPO)

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- Temporary employee hired for 6 months or longer
- **Employees classified as Casual or Students are not eligible.**

Coverage for new hires begins on the first day of the month following their date of hire.

NOTE: Employees of Avista that are married to one another are prohibited from covering each other under the Washington Dental Service Plan. Each employee can enroll as a subscriber, or one may elect to cover the spouse as a dependent, but not both. The plan does not allow married employees to attempt to "double cover" themselves or family members.

SUMMARY OF BENEFITS

Reimbursement Levels for Allowable Benefits

*Class I.....	Constant 100%
Class II.....	Constant 80% (Paid at 90% when using a PPO provider)
Class III.....	Constant 50%
*Annual Deductible per Person.....	\$25
*Annual Deductible - Family Maximum.....	\$75
Annual Program Maximum per Person.....	\$2,000
*Lifetime Orthodontic Benefits per Person.....	\$1,000

The payment level for covered dental expenses arising as a direct result of an accidental bodily injury is 100%, up to the unused program maximum.

All covered employees and covered dependents are eligible for Class I, Class II, Class III, Orthodontic Benefits and Dental Accident Benefits.

*Annual deductible is waived for Class I, Orthodontic Benefits and Dental Accident Benefits.

Visit the HR website on Avonet for more complete Plan details.

MEDICAL COVERAGE IN RETIREMENT

(For Retirements After January 1, 1992 and Retirees Under Age 65)

Avista Corp. offers medical benefits to retiring employees who have reached a minimum of age 55 and have completed 15 years of service. Retirees under age 65 are provided the same medical benefits as active employees covered under the Local 77 Union active medical plan.

The cost to you for coverage depends on the plan you choose and your family coverage category. The portion Avista Corp. pays for your coverage varies based on the date of your retirement and your length of service.

The Company Contribution amount has been “capped” for retirees, so the retiree will responsible for all premiums beyond the maximum Company contribution amounts.

MEDICAL COVERAGE IN RETIREMENT

(For Retirements After January 1, 1992 and Retirees Over Age 65)

Once a retiree reaches age 65 he/she is provided with a Retiree Medical Medicare Supplemental Plan.

The cost to you for coverage depends on the plan you choose and your family coverage category. The portion Avista Corp. pays for your coverage varies based on the date of your retirement and your length of service. The Company Contribution amount has been “capped” for retirees, so the retiree will responsible for all premiums beyond the maximum Company contribution amounts.

RETIREE MEDICAL MEDICARE SUPPLEMENT PLAN FOR RETIREES/DEPENDENTS OVER AGE 65 (FOR RETIREMENTS ON OR AFTER JANUARY 1, 1992)

SUBSCRIBER:

- Must be retired from active service
- Have attained age 65 and have been covered immediately prior to the attainment of age 65 under one of the medical coverage options offered by Avista Corp., and
- **Must be enrolled in Medicare Parts A and B.**

DEPENDENT SPOUSE:

- The lawful dependent spouse of the subscriber must have attained age 65, and
- Have been covered by the subscriber immediately prior to the attainment of age 65 under one of the medical coverage options offered by Avista Corp., and
- **Must be enrolled in Medicare Parts A and B.**

DATE OF ELIGIBILITY:

- The Subscriber and/or dependent spouse becomes eligible on the first day of the month coincident with eligibility to enroll in Medicare.

LIFETIME MAXIMUMS:

- Two Hundred and Fifty thousand dollars (\$250,000) for all covered conditions for each beneficiary.

Visit the HR Website on Avonet for more complete Plan details.

Avista Corp. Holidays

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- Temporary employee hired for a minimum of 6 months or longer will not receive paid "Holidays" until they have had their 6 month anniversary.
- **Employees classified as Casual or Students are not eligible.**

BENEFIT	2011
NEW YEAR'S DAY	January 1, 2011 (Friday December 31 st is paid as holiday)
MEMORIAL DAY	May 30, 2011 (Monday)
INDEPENDENCE DAY	July 4, 2011 (Monday)
LABOR DAY	September 5, 2011 (Monday)
THANKSGIVING & THE DAY AFTER	November 24 & 25 2011 (Thursday & Friday)
CHRISTMAS DAY	December 25, 2011 (Monday, December 26 th is paid as holiday)

Avista Corp.
FMLA (The Federal Family and Medical Leave Act)
(FMLA Provides Job Protected Leave that is Non-Paid)

OVERVIEW

Any employee absence, with the exception of scheduled vacation, that exceeds or is anticipated to exceed five (5) days must be reported to the Occupational Health Nurse regardless of the reason for leave.

FMLA-THE FEDERAL FAMILY AND MEDICAL LEAVE ACT: Effective as of August 5th, 1993, the FMLA was enacted to allow employees to balance the demands of the workplace with the needs of family. The Act provides for up to twelve weeks of job-protected leave per 12 month period to eligible employees for the birth of a child, or for the serious illness of the employee or a family member. This act is administered by the Department of Labor's (DOL) Employment Standards Administration (ESA). It is the responsibility of the employer to notify an employee of his rights of eligibility for FMLA leave and clearly document when leave is granted.

Job-protected FMLA leave is triggered by one of the following events:

- Birth of the Employee's child or placement for adoption or Foster Care of a child with the employee.
- The employee is needed to care for an immediate family member (spouse, child, or parent) who has a serious health condition.
- The employee has a serious health condition arise.

These triggering events have specific, detailed descriptions under the law and require the "Certification of Physician or Practitioner". **Dependent upon the triggering event, FMLA leave may be paid or unpaid. Avista Corp. requires the employee to use all paid leave benefits (STD/One Leave) first, as part of his/her FMLA, before taking unpaid leave.** For a more in-depth definition of qualifying events and specific paid benefits, please contact the Occupational Health Nurse or your Human Resources Business Partner.

If you have questions or would like more detail on a specific disability benefit, please contact Rita Gregovich, RN, COHN/CM at extension 4712.

Avista Corp. Worker's Compensation

OVERVIEW

Benefits paid for medical expenses and lost wages due to an "on the job" injury or illness. If injured on the job, a claim must be filed within one year of the event that caused the injury. An occupational illness claim must be filed within one year of the date of diagnosis, and a causal relationship must exist between the development of the illness and the nature of the work.

Worker's Compensation benefits for medical treatment and temporary total disability are paid in accordance with Washington State's Industrial Insurance Laws (RCW's) as directed by the Washington Administrative Codes (WAC's). An employee who is unable to work due to an occupational illness or injury may concurrently qualify for FMLA leave.

- Employees must report an occupational injury to their supervisor as soon as possible.
- An "Employee Injury Accident Report" must be completed and sent to Occupational health within two (2) days
- If the injury requires immediate medical attention, a Worker's Compensation Claim form must be completed. Contact the Occupational Health Nurse if you need a claim form or assistance completing the report. This must be done as soon as possible to insure benefits are paid in a timely manner.

The Occupational Health Nurse will coordinate paperwork for FMLA leave and provide payroll with appropriate time-loss information. If you have questions or would like more detail on a specific disability benefit, please contact Rita Gregovich, RN, COHN/CM at extension 4712.

Worker's Compensation benefits begin immediately after an industrial accident or injury.

Benefit Level (subject to limitations and maximums). The employee will receive an amount from the Company which, when combined with temporary Workers' Compensation benefits will equal 100 % of his/her regular pay as long as he/she receives temporary disability payments under Workers' Compensation (not to exceed the weeks shown in the following schedule according to years of service). After this time the employee will receive Workers' Compensation benefits according to the state schedule (at least 60%) as long as they continue to be off work due to an industrial injury.

Years of Company Service	Industrial Accident Maximum Weeks supplemented by Avista Wks. Pd. at 100% of Salary
0.5 (6mos)	1
1	2
2	4
3	6
4	8
5	10
6	12
7	14
8	16
9	18
10+	20

Avista Corp.
STD (Short Term Disability)
Contact: Rita Gregovich (509) 495-4712

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

BENEFIT DESCRIPTION

When an employee suffers a non-occupational illness or injury resulting in disability from working for more than 5 consecutive workdays, wage loss benefits will generally begin on the sixth day of disability and must include the following:

- The employee must be willing to provide objective medical information from his/her healthcare provider that explains the need for short-term disability.
- In the event lost workdays are not consecutive, they must occur within 14 days preceding the sixth day and the employee must provide documentation of ongoing medical treatment for the same qualifying medical condition.
- The employee must initiate the application process by providing a completed STD/FMLA packet that includes objective medical information (explains why disability is needed) from his/her healthcare provider to Occupational Health. In the event an employee suffers an unforeseen disabling condition, he/she must notify the Occupational Health Nurse Case Manager by the sixth day of disability to insure the application process is initiated and agree to provide the necessary medical information is completed during the next medical appointment. Failure by the employee to take action to initiate the STD application process by the close of the pay period may result in delay or denial of benefits.
- Avista may elect to obtain a second medical opinion to review the need for disability benefits and to address return-to-work issues. The Company would pay for the second doctor's appointment.
- Should the first two (2) doctors' assessments of disability be different, the Company may consult with a third doctor (mutually agreed upon by the employee and the company). The Company would pay for the third doctor's appointment.

Once the STD benefits claim is approved, STD benefits will be available to cover the employee's absence until he/she has returned to his regular, full-time position. If, during the employee's recovery period, the worker is released to part-time hours, STD will be available for that non-worked portion of the schedule. STD may also be utilized to cover time away from work for a doctor's appointments or other scheduled treatments related to the employee's approved condition. Once the employee returns to work on a regular, full-time basis and STD benefits have not been used for a period of 30 days; the claim will be considered closed. If the condition will require additional time away from work that will occur at a point in excess of 30 days from the last STD use, a medical statement indicating this special requirement should be provided for the file.

ELIGIBILITY and RATE OF BENEFITS ACCRUAL

An employee of Avista Corp. with a minimum of six months of service is eligible to receive 1 (one) week of STD benefits above criteria are met. The benefit level would be paid at 100%. After 1 year of service, if medically necessary, an employee is eligible to receive up to 26 weeks of STD benefits. When Short-term disability benefits are used they are deducted from the employee's 26-week maximum bank balance.

STD benefits maximum bank balance is restored in full six (6) months from the date STD was last used. STD benefit level is based on years of service as outlined below:

Years of Service	Weeks Paid at 100% of Salary	Weeks Paid at 60% of Salary
.5 (6 mos.)	1	0
1	2	24
2	4	22
3	6	20
4	8	18
5	10	16
6	12	14
7	14	12
8	16	10
9	18	8
10+	20	6

Note: While the employee is on 100% STD, they will continue to accrue One Leave. However, the employee will not accrue any One Leave while on 60% STD.

WHEN BENEFITS END

STD benefits will end in the event of the following:

- The employee's healthcare provider releases the employee to work, either in a "modified duty" or their regular duty job.
- If modified duty is available that can temporarily accommodate the employee's medical restrictions, STD benefits will end. While working on the temporary modified duty, the employee will continue to receive his/her regular rate of pay. The employee may opt to remain off work until release to full duty under FMLA (if applicable) utilizing One Leave or unpaid leave.
- When all STD benefits are exhausted.
- Employment ends.

SUSPENSION OF STD BENEFITS

Avista Corp. may elect to suspend benefits from an employee receiving STD under the following conditions:

- If the employee refuses to provide medical information, or if the employee fails to notify the Occupational Health Nurse when having difficulty obtaining medical information.
- If an Independent Medical Examination (third doctor's opinion), performed by a qualified medical specialist determines the employee is able to return to work in some capacity.
- If an employee fails to cooperate and participate in an Independent Medical Examination of their condition and ability to return to work.

If you have questions or would like more detail on a specific disability benefit, please contact **Rita Gregovich, RN, COHN/CM at extension 4712.**

Avista Corp. Long Term Disability

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or (Who have completed 1,000 or more hours and have completed at least 12 months of service.
- ◆ Employees with less than one year of service will not be eligible for LTD. They will automatically be enrolled for coverage on their one-year anniversary.

OVERVIEW

- ◆ Benefits begin 26 weeks after a covered disability begins.
- ◆ Benefit Level: Eligible employees will receive LTD benefits at 60% until they qualify as eligible for retirement benefits under Avista's Defined Benefit Pension (DBP) plan, at which time their LTD benefit will be at 50% of their straight time earnings. The 50% (60%) LTD benefit will continue for eligible employees until they retire under the Avista DBP or until they reach Normal Retirement Age (65), whichever comes first.
- ◆ While disabled, generally to age 65 (longer if you become disabled after age 60).
- ◆ Employees with one to ten (1-10) years of service are eligible for one (1) year of benefit for each year of service. Employees with ten (10) or more years of service are eligible for benefits as defined by the Plan.

Avista Corp. One Leave Program

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- Temporary employee hired for a minimum of 6 months or longer will accrue One Leave upon date of hire, but will not be permitted to use One Leave until they reach their 6 month anniversary.
- **Employees classified as Casual or Students are not eligible.**

To maintain compliance with the Fair Labor Standards Act) exempt employees (employees who are exempt from overtime) must take one leave in full day (8 hour) increments. Non-exempt employees (employees who are not exempt from overtime) may take partial or full days of one leave.

One Leave Accrual Schedule			
Years of Service	Accrual Per Days Per Year	Accrual Per Pay Period (80 Hours)	Accrual per hour
During the 1 st Year	18.00	5.54	.06924
During the 2 nd Year	18.69	5.76	.07200
During the 3 rd Year	19.38	5.97	.07462
During the 4 th Year	20.07	6.18	.07725
During the 5 th Year	20.76	6.39	.07987
During the 6 th Year	21.45	6.60	.08250
During the 7 th Year	22.14	6.82	.08525
During the 8 th Year	22.83	7.03	.08787
During the 9 th Year	23.52	7.24	.09050
During the 10 th Year	24.21	7.45	.09312
During the 11 th Year	24.90	7.67	.09587
During the 12 th Year	25.59	7.88	.09850
During the 13 th Year	26.28	8.09	.10112
During the 14 th Year	26.97	8.30	.10375
During the 15 th Year	27.66	8.51	.10637
During the 16 th Year	28.35	8.73	.10912
During the 17 th Year	29.04	8.94	.11175
During the 18 th Year	29.73	9.15	.11437
During the 19 th Year	30.42	9.36	.11700
During the 20 th Year	31.11	9.58	.11975
During the 21 st Year	31.80	9.79	.12237
During the 22 nd Year	32.49	10.00	.12500
During the 23 rd Year	33.18	10.21	.12762
During the 24 th Year	33.87	10.43	.13037
During the 25 th Year	34.56	10.64	.13300
During the 26 th Year	35.25	10.85	.13562
During the 27 th Year	35.94	11.06	.13825
During the 28 th Year	36.63	11.28	.14100
During the 29 th Year	37.32	11.49	.14362
During the 30 th Year	38.00	11.70	.14620
Thereafter	38.00 days or	11.70 hrs per pay period	.14620

Avista Corp. One Leave Program

The One Leave Program is a benefit that allows employees to accrue a “bank” of hours, based on years of service, to use for vacation, personal business, family illness, doctor/dental visits, funerals or recovery from sickness or accident.

Maximum number of “banked” One Leave Hours is 750 hours

- You may have a maximum bank of 750 hours. Once you reach 750 hours, you will no longer accrue One Leave. You will need to decrease your bank below the maximum, either through cash out or regular use, before accrual can resume.
- You will be responsible for managing your one leave bank during the calendar year, keeping in mind that you will no longer accrue One Leave if your bank is at the maximum of 750 hours.

One Leave Plan modified for Non-Union Corp. /Utility and Avista Energy employees effective July 1, 2006 such that the One Leave Bank at retirement will be utilized to fund the individual’s Retirement HRA Account.

With this One Leave Plan change, One Leave cash-outs will be discontinued effective July 1, 2006. A new feature will be added to the One Leave Plan which will establish a window period in November and/or December of each year beginning in 2006 in which eligible employees may elect a portion of their next year’s One Leave accrual as transferred to cash. The limits for the amount of future accrual of One Leave allowed to be elected, as cash will be 120 hours at 100% and additional hours up to your annual accrual rate at 80%. When future accrual is elected for cash out the decision will be irrevocable and the cash out will be paid once a month as extra compensation throughout the following year.

One Leave available at retirement will be credited to the retiree’s individual HRA account. The employee cannot cash out One Leave at retirement. However, employees with One Leave balances separated from the Company prior to retirement would still receive the One Leave as a cash-out.

Avista Corp. Health Care Reimbursement Plan (HCR)

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

Medical Care Expense Reimbursement Benefits

Under the Medical Care Reimbursement component, you purchase a specific level of Medical Care Reimbursement benefits, paying for coverage through the Salary Reduction Agreement with Avista Corp, in lieu of a corresponding amount of current pay, which means that the premiums you pay will be with pre-tax funds. In return, you may be reimbursed from the Plan for certain eligible Medical Expenses. This arrangement helps you because the level of coverage you elect is non-taxable; thereby saving you social security and income taxes on the amount of the premiums you pay.

Dependent Care Reimbursement Plan (DCR)

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

Dependent Care Expense Reimbursement Benefits

Under the Dependent Care Expense Reimbursement (DCR) component, you provide a source of pre-tax funds to reimburse yourself for your Eligible Dependent Care Expenses by entering into a Salary Reduction Agreement with Avista Corp under which you agree to a salary reduction to fund Dependent Care Expenses in lieu of a corresponding amount of your regular pay. This arrangement helps you because the coverage you elect is non-taxable, thereby saving you social security and income taxes on the amount of salary conversion.

Avista Corp. Premium Payment Plan

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- ◆ Regular (F/T or P/T) employee
- ◆ Temporary employees who are enrolled in the health plans

HOW THE PREMIUM PAYMENT PLAN WORKS

The Premium Payment Plan allows you to pay the premiums for some of your Company benefits with pre-tax dollars. This results in tax savings. You may use the Plan to pay premiums for:

- **MSC-EBA Medical Plans**
- **WDS Dental Plans**
- **Group Health Medical Plan**
- **AD&D (Accidental Death & Dismemberment Insurance)**

You will automatically be enrolled in the Premium Payment Plan if you participate in any of these plans. If you do not want these premiums to be paid on a pre-tax basis for any year, you must complete and submit a written request to that effect no later than December 31 of the preceding year.

EXAMPLE OF TAX BENEFIT

Suppose you earn \$24,000 a year and have a federal income tax rate of 20%. Suppose, also, that you pay \$300 a year in premiums for EBA coverage for you and your family, and \$103 a year in premiums for \$100,000 of family AD&D coverage. You would save \$111 a year in taxes by using the Premium Payment Plan. Here's how the savings are calculated:

	With POP	Without POP
Annual gross income	\$24,000	\$24,000
EBA premium (pre-tax)	-300	0
AD&D premium (pre-tax)	-103	0
Adjusted gross income	<u>\$23,597</u>	<u>\$24,000</u>
Federal income tax (20%)	-4,720	-4,800
Social Security Tax	-1,805	-1,836
EBA premium (after tax)	0	-300
AD&D premium (after tax)	0	-103
Take-home pay	<u>\$17,072</u>	<u>\$16,961</u>
 Tax savings	 \$111	 0

(This example is intended to illustrate the effect that the Plan has on an employee's take-home pay. The tax assumptions used here will most likely be slightly different than your own situation.)



Avista Corp. Investment Plan - 401(k)

It's Easier to save with One Step!

Welcome to Avista! You will be enrolled automatically in the Avista 401 (k) plan!

Saving in your plan can help you achieve a comfortable financial future. Avista and Vanguard have partnered to offer an automatic savings feature that is so easy, you may forget that you are saving at all. It's called **One Step**. In addition to tax savings, your plan offers investment flexibility and the convenience of automatic paycheck deductions. For more information about your plan and investment information, please call or log on to www.Vanguard.com, using your Plan # 092094.

How One Step® Works

It's as easy as 1, 2, 3

1. **You're enrolled in the plan automatically at a paycheck deduction rate of 3%**
One Step makes saving for your future convenient and easy. Best of all, there's no need to sign up. It's done for you.
2. **You don't have to research and select investments**
You will be invested automatically in Vanguard® Wellington™ Fund. This fund invests in both stocks and bonds - and sometimes short-term reserves - in varying proportions.

Keep in mind that all investing is subject to risk. Investments in bond funds are subject to interest rate, credit, and inflation risk. Diversification does not ensure a profit or protect against a loss in a declining market.

3. **One Step helps you save even more**
Your payroll deduction will increase automatically by one percentage point each January until you reach 6%. It's that easy.

Your paycheck deductions will begin approximately 45 days from your date of hire. Please contact Vanguard by calling 800-523-1188 if you'd like to know the exact date your paycheck deduction will take effect.

You're In Control

- You can opt out of One Step at any time. Just contact your plan administrator or Connect with Vanguard at www.vanguard.com or 800-523-1188. But think carefully before you do so. Saving and investing are great ways to help achieve long-range financial goals. One Step helps you do both - automatically. Keep One Step working for your future.
- If you wish to contribute a percentage **OTHER THAN** the automatic 3% or direct your contributions to a fund **OTHER THAN** the Vanguard Wellington Fund, you must also contact Vanguard.

Contacting Vanguard

You have three ways to contact Vanguard:

1. Go to Vanguard's website at www.vanguard.com.
2. Call Vanguard's 24-hour automated VOICE® Network at **800-523-1188**. You will soon receive a personal identification number (PIN) so that you can use this 24-hour automated VOICE Network. If you do not receive a PIN in the next two weeks, call Vanguard at **800-523-1188**.
3. Speak with a Vanguard Participant Services associate at the same toll-free number Monday through Friday from 5:30 a.m. to 6 p.m., Pacific time.

At the time you are automatically enrolled or when you change the amount deducted from your paycheck, or change your investment options, or opt out of the plan, you will receive a confirmation number. A statement verifying your transaction will be sent to you in the mail.

Managing your account

You can make transactions, monitor the activity in your plan account, and obtain fund prices and yield information by contacting Vanguard online or by phone.

Questions?

If you have any questions, call Vanguard Participant Services at **800-523-1188**.

Non-Union Employees Hired On or AFTER January 1, 2006

Effective January 1, 2011 your Company matching contributions are **\$1.00** for every \$1.00 of employee contributions you make to the Plan up to 6% of pay. Company contributions become 100% vested after a participant has reached his or her one-year employment anniversary. You can contribute the lessor of 75% of your pay or up to the IRS limit.

Non-Union and Local 659 Employees Hired Prior to January 1, 2006

Your Company matching contributions are **\$0.75** for every \$1.00 of employee contributions you make to the Plan up to 6% of pay. Company contributions become 100% vested after a participant has reached his or her one-year employment anniversary. You can contribute the lessor of 75% of your pay or up to the IRS limit.

Visit the HR Website on Avonet for more complete Plan details.

Avista Corp. Retirement Bonus / HRA Contribution

Effective for Avista Corp Non Union employees retiring January 1, 2005 or thereafter, the existing Retirement Bonus paid at retirement will be replaced with a contribution to a Health Reimbursement Arrangement (HRA) upon retirement. (NOTE: only those employees that have attained the age of fifty-five (55) and have at least fifteen years of service as defined by the Avista Corporation Retirement Plan will be eligible for the retirement bonus).

Note: If you are considered a Highly Compensated Individual (HCI) your Retirement Bonus will be paid as a combination of cash and a contribution to the HRA. Discrimination testing is performed each year to determine the list of 25% highest paid employees for use the following year. If you make this HCI list your Retirement Bonus contribution to the HRA is limited to the highest Retirement Bonus paid to a Non-HCI in the prior year. Any amount not contributed to the HRA will be paid on your final pay check with the appropriate taxes withheld.

Avista retirees are experiencing significant medical insurance premium increases due to high medical inflation, plan utilization and premium caps on the Company contribution. In an effort to leverage the value of benefits without increasing benefit costs, Avista will replace the existing Retirement Bonus with an HRA contribution.

Frequently Asked Questions

What is the HRA Plan?

The Health Reimbursement Arrangement Plan (HRA) provides a TAX FREE benefit, contributed by Avista, to pay out-of-pocket Health Care expenses.

At retirement would I get a choice to take the retirement bonus as cash versus as a Company contribution to an HRA?

No, all retirement bonuses for eligible employees will be made as HRA contributions.

Who are eligible employees?

All non-bargaining unit employees who retire (At least age 55 with 15 years service) from the Company from 1/1/05 forward and all bargaining unit employees meeting the same criteria (provided the membership votes approval of implementation).

How much will be contributed to the HRA?

Eligible employees will receive a contribution to the HRA of one day of base pay for every year or partial year of service up to a maximum of 30 days of base pay. This is the same payment formula utilized for the current Retirement Bonus.

Years of Service	Days Pay
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23

24	24
25	25
26	26
27	27
28	28
29	29
30+	30

Will the HRA contribution earn interest?

No, the Company will carry the dollar value of the contribution on the books as a liability until the retiree has spent the dollars on Plan covered health expenses.

How can the HRA dollars be spent?

The dollars can be spent on Plan authorized medical expenses such as; Retiree Medical insurance premiums, medical deductibles and co-pays and Long Term Care insurance premiums.

What happens to the HRA dollars should the retiree pass away?

They would go to the retiree's designated beneficiary to be used for plan covered health cost reimbursements. The tax free benefit is maintained if the beneficiary is the retiree's spouse or eligible dependent child, as defined by the IRS.

If I have the HRA reimburse me for the retiree medical premium how will it work?

The retiree's share of the medical premium will be deducted from the retirement check and then the Third Party Administrator will write the retiree a check for the amount of premium paid.

Who is the Third Party Administrator (TPA)?

A. W. Rehn and Associates of Spokane is the administrator. They also administer our existing Flexible Spending Account reimbursement program.

Who pays the TPA fee and how much is it?

The fee is \$3.00 a month and it is deducted from the retiree's HRA balance.

How do I get reimbursed for other covered medical expenses?

Once you retire you will get a Welcome Packet with instructions and forms from the TPA. You will turn in a receipt with a reimbursement form and the TPA will write you a Check for the reimbursable amount.

Can my reimbursement check be deposited to my bank account?

Yes. The TPA will reimburse your expenses via check or direct deposit.

How often are payments processed?

The TPA processes payments weekly.

How will I know how many dollars are left in my HRA account?

You can go to the TPA's website at any time and check your balance. The TPA will also send out an annual statement which will show the balance including any distributions and administrative fees.

Visit the HR Website on Avonet for more complete Plan details.

Avista Corp. Healthy Directions HRA Plan

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees on LTD are not eligible.**
- **Employees classified as Temporary, Casual or Students are not eligible**

In order to be eligible for the HRA wellness incentive program, you must be enrolled as a "subscriber" in the Premera Blue Cross self-insured medical plan. Only those employees that are enrolled in the Premera Plan and successfully complete the requirements for the wellness incentives will be eligible for those awards.

Wellness Initiative Payouts: Some wellness initiatives may offer an HRA incentive for successful completion of the program. Eligible employees will only receive the HRA payout if ALL of the following are met:

- Employee must have successfully completed the requirements of the specific challenge(s)
- Employee must be a member of the Premera Self-Insured medical plan at the time the incentive is actually paid
- Employee must be employed by the Company and still considered to be in an active employment status at the time the incentive is actually paid

Note: Payments of HRA incentives are based on the sole discretion of the plan administrator. (Timing of reports, program timeframes, deadlines, and vendors may have an impact on the date payments are actually posted).

Frequently Asked Questions

What is a Health Reimbursement Arrangement (HRA)?

A benefit provided by your employer where they deposit a set amount of money into an HRA account for you. Then, during the year you can be directly reimbursed from your account for qualified healthcare and dependent care expenses.

How much will be contributed to the HRA?

HRA contributions are based on incentives associated with participation in wellness programs within the Healthy Directions program.

Why should I participate in the HRA when I already have health insurance?

This account is used to pay for expenses that are not covered by insurance. For example, your insurance may not cover the entire cost of eye surgery, glasses, orthodontics, prescription drugs, or dental care, just to name a few. Most medical plans also require co-pays, deductibles and coinsurance.

Who is the Third Party Administrator (TPA)?



PO Box 5433 · Spokane, WA 99205
Phone: 800-872-8979 / 509-534-0600 · Fax: 509-535-7883

How do I get reimbursed for my expenses?

Simply complete a claim form, attach a copy of the healthcare bill, and mail or fax your form to A.W. Rehn. Within a short time, you will receive your reimbursement.

Can my reimbursement check be deposited to my bank account?

Yes. The TPA will reimburse your expenses via check or direct deposit.

How often are payments processed?

The TPA processes payments daily.

Are the health care expenses of family members covered?

Yes, any eligible unreimbursed health care expense of your spouse and your dependent children can be reimbursed from your account. An eligible dependent child or other dependent individual are those who qualify under the rules of the IRS. If they meet these qualifications their expenses are covered.

How do I know how much is available in my HRA account?

Each time you receive a reimbursement, a statement (attached to your reimbursement check) will show the dollar amount you have as well as the amount you have been paid to date. Or you may check your account online at www.ezflexplan.com/rehn/

What happens to my HRA account if I terminate my employment?

Your dollars would remain in your account and you would be able to submit qualified expenses until you had exhausted your account balance. There is no required time frame to deplete your account.

What if I don't use all of the money in my HRA account?

Any contributions that are not used during the plan year will continue to roll over year after year.

**Avista Corp.
Retirement Plan
for Non-Union Corp/Utilities Employees
Hired On or After January 1, 2006**

Overview

The Retirement Plan provides you with a continuing source of monthly income upon retirement from the Company. This benefit is funded entirely by the Company.

Eligibility

After completion of one year of service and a minimum of 1000 hours an eligible employee becomes a Member of the Plan if they are employed by a Participating Employer.

Vesting

Vesting is a form of ownership or right to receive a pension benefit. Vesting Service is time which is counted toward earning a vested pension benefit. Benefits are vested after five years of service.

Normal Retirement Formula

Normal Retirement Date is the first day of the month coincident with or next following your 65th birthday or the fifth anniversary of your employment date, whichever is later. When you retire on or after your Normal Retirement Date, you are entitled to an unreduced pension benefit calculated using the Normal Retirement Formula described below. If you have at least 15 years of Vesting Service you may retire with a reduced benefit as early as age 55, or retire as early as age 62 and receive an unreduced benefit. See "Early Retirement" section for more detail.

Formula

The Plan formula averages your highest consecutive 36 months of base pay during the last ten-year period worked. This is called your "3-Year Final Average Pay".

1.2% of 3-Year Final Average Pay for each year of Benefit Service.

The amount resulting from this calculation is called your "accrued benefit".

Example Calculation

If you have 20 years of Benefit Service and 3-Year Final Average Pay of \$25,000, your benefit will be \$6,000 per year or \$500.00 per month calculated as follows:

$$\begin{aligned} 1.2\% \times 20 \text{ years} &= 24\% \\ 24\% \times \$25,000 &= \$6,000 \\ \$6,000, 12 \text{ months} &= \$500.00 \end{aligned}$$

This benefit, called a Life Annuity, is paid in equal monthly installments for as long as you live.

Early Retirement

Retirement from ACTIVE Service

If you are actively employed by the Company and you are at least age 55 you can elect to retire if you have at least 15 years of service. Since monthly benefits will be paid over a longer period of time, they will be reduced by a percentage according to your age when payments begin.

Early Retirement Reduction Factors (ERRF)	Age at Retirement	% of Normal Retirement Benefit Payable
	55	65%
	56	70%
	57	75%
	58	80%
	59	85%
	60	90%
	61	95%
	62	100%
	63	100%
	64	100%
	65	100%

Example Calculation

Suppose you choose to retire at age 55 and elect to receive your benefits immediately. Your Final Average Pay is \$35,000 and you have 15 years of Benefit Service. Your annual pension (Life Annuity) will be \$4,095 or \$341.25 per month.

$$\begin{aligned}
 1.2\% \times 15 \text{ years} &= 18\% \\
 18\% \times \$35,000 &= \$6,300 \\
 \text{age 55 ERRF} &= 65\% \\
 \$6,300 \times 65\% &= \$4,095 \\
 \$4,095, 12 \text{ months} &= \$341.25
 \end{aligned}$$

Benefits for Vested Terminees

Vested employees who leave the Company before qualifying for early or normal retirement receive benefits according to the following table. To be eligible for pension benefits, which begin prior to age 65 you, must have completed at least 15 years of Vesting Service.

ERRF for Vested Terminees	Age Benefit Begins	% of Normal Retirement Benefit Payable
	55	50%
	56	55%
	57	60%
	58	65%
	59	70%
	60	75%
	61	80%
	62	85%
	63	90%
	64	95%
	65	100%

Forms of Benefits

In addition to choosing whether to retire early or on your Normal Retirement Date, you may choose the form in which your pension is paid. If you are married at the time of retirement your choices are:

- Life Annuity Benefit with a 66 2/3% and 50% Survivor Benefit, or
- Life Annuity Benefit with a 75% Survivor Benefit, or
- Social Security Level Income Benefit, or
- Lump Sum Cash Out

If you are single, your choices are:

- Life Annuity Benefit, or
- Ten-Year Certain and Life Benefit, or
- Social Security Level Income Benefit, or
- Lump Sum Cash Out

Life Annuity with a 66 2/3% and 50% Survivor Benefit

The Life Annuity Benefit is paid to you for as long as you live. Eligible dependents receive survivor benefits. Should you pre-decease your spouse, your spouse will receive 66 2/3% of your pension until they reach age 60. At your spouse's age 60, they will receive 50% of your pension for the remainder of their lifetime. You will automatically receive your pension in this form unless you elect either the Social Security Level Income Benefit or Ten-Year Certain and Life Benefit. The Life Annuity Benefit is reduced by the early retirement reduction factors if you retire prior to the normal retirement age of 65.

Life Annuity with a 75% Survivor Benefit

The Life Annuity Benefit is paid to you for as long as you live. Eligible dependents receive survivor benefits. Should you pre-decease your spouse, your spouse will receive 75% of your pension for the remainder of their lifetime. The Life Annuity Benefit is reduced by the early retirement reduction factors if you retire prior to the normal retirement age of 65.

Social Security Level Income Benefit

This form of benefit is available to you if you retire before age 62. Under this option, your pension payments would be higher before age 62, and then reduced to reflect the amount received from Social Security. The intent of this option is to provide you with a somewhat level income before and after Social Security benefits begin. If you are married and choose this option, the reduction shall apply to only your benefit; it will have no effect on survivor benefits.

Ten-Year Certain and Life

If you are single, but want to provide coverage for an ineligible dependent or other beneficiary, you may elect the Ten-Year Certain and Life Annuity. This option provides a reduced lifetime pension for you, but it assures that a total of at least 120 equal monthly payments will be made to either you or your beneficiary. If you die before receiving 120 payments, the remaining payments are made to your beneficiary. However, if you die after receiving 120 monthly payments, no benefits will be payable to your beneficiary.

The following table shows what your reduced Ten-Year Certain and Life Annuity would be as a percentage of the Life Annuity Benefit you would be entitled to receive at a given retirement age:

Age	Reduced Benefit as a % of Life Annuity Benefit
55	98%
56	97%
57	96%
58	95%
59	94%
60	93%
61	92%
62	91%
63	90%
64	89%
65 or older	88%

If you retire early and choose the Ten-Year Certain and Life Annuity, your monthly benefit is further reduced. In the previous example, you retired with 16 years service at age 55 and received a reduced Lifetime Annuity Benefit of \$511 per month. If you chose the Ten-Year Certain and Life Annuity, the monthly benefit would be \$500.78. The table above shows that the Ten-Year Certain and Life Annuity at age 55 is 98% of the benefit you would otherwise be entitled to receive. Therefore, 98% of \$511 is \$500.78.

Lump-Sum Cash Payment

The Plan permits you as an employee the option of electing a single lump sum cash payment distribution in lieu of the normal form of annuity benefit. This single lump sum cash payment would be the actuarial equivalent of your benefit otherwise payable in annuity form. If you are married your spouse must consent to this election. A lump sum election means you receive a single payment from the Plan and no other benefit payable to you or a survivor upon your death.

Benefit Less Than \$5,000

If the present value of your accrued benefit is less than \$5,000 at the time of your termination from the Company, the Plan will distribute the actuarial equivalent of your benefit in a single lump sum cash payment.

Survivor Benefits

If you choose either the Life Annuity Benefit or the Social Security Level Income Benefit, your eligible surviving dependents will receive a survivor benefit after you die.

To be eligible for benefits, your spouse must have been married to you at the time benefits commenced and have been your spouse for at least 12 months at the time of your death. After your death, 66 2/3% of your pension will be paid to your Eligible Surviving Spouse until he or she reaches age 60. After age 60, 50% of your pension will be paid for his or her life.

Example: Suppose your Life Annuity Benefit is calculated to be \$1,500 a month. If your Eligible Spouse survives you, the survivor's monthly pension would be \$1000 until he or she reaches age 60. After age 60 the survivor pension would be \$750 for his or her life.

The example above assumes that you are not more than five years older than your spouse is. Benefit percentages are reduced two percent for each full year that you are more than five years older than your spouse.

Example: If you are 6 1/2 years older than your Eligible Spouse, the benefit payable if he or she survives you would be 64 2/3% of your benefit until your spouse reaches age 60, and 48% after age 60 for life. If your pension was \$1,500 per month, the survivors monthly benefit would be \$970 until age 60 and \$720 thereafter.

If you have no Eligible Spouse when you die, but do have Eligible Children, 66 2/3% of your pension will be shared equally among your children until they reach age 19.

Pre-Retirement Survivor Income Death Benefit

If you die after becoming fully vested in the Plan, but before you begin receiving benefits, your Eligible Surviving Spouse or Eligible Dependent Children will receive pension payments. The date upon which benefits begin depends on whether you die before or after becoming eligible for early retirement.

After Eligibility for Early Retirement

If you die after becoming eligible for early retirement, your eligible survivor(s) is/are entitled to receive a pension benefit starting the first day of the month following your death.

Before Eligibility for Early Retirement

If you die before becoming eligible for early retirement, your eligible survivor(s) is/are entitled to the same survivor benefit that would have been paid had you terminated rather than died. The survivor benefit will commence on the earliest date you could have received a pension benefit.

Avista Corp. Long-Term Care Insurance Plan

John Hancock Life Insurance Company

Request your enrollment kit today!

Call **1-800-482-0022** or visit the
Avista Corporation Long-Term Care Web site at
<http://avista.jhancock.com>
(username: avista; password: mybenefit)

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

Highlights of the Avista Corp. Long-Term Care Insurance Plan

Did you know?

Avista Corporation sponsors a voluntary Group Long-Term Care Insurance Plan for eligible actively at-work full-time and part-time employees and their eligible spouses, surviving spouses, parents, step parents, parents-in-law, step parents-in-law, grandparents, step grandparents, grandparents-in-law and step grandparents-in-law adult children and siblings. The insurance is underwritten by John Hancock Life Insurance Company (John Hancock), Boston, MA 02117, one of the premier Long-Term Care Insurance carriers.

Why Should You Be Concerned With Long-Term Care Issues?

What would you do if you, your spouse, or one of your parents suddenly became unable to care for themselves and needed assistance with the most personal daily activities, like bathing or dressing? While most of us prefer not to think about this possibility, many of us have known friends or family members faced with this predicament. One must consider the possibility of needing that assistance, as well as the estimated costs associated with receiving that care.

Benefit Options

In addition to conventional nursing home coverage, the policy may cover services received in your own home and in other types of care facilities. The mix of care settings and levels of care varies with different policies

Care Coordination

One of the most valuable features of this plan is care coordination. John Hancock care coordinators are registered nurses who are knowledgeable in the field of long-term care. They will work with you and your family to find the care that is right for you and to help you use your long-term care benefits wisely. However, you are not required to follow their recommendations.

Inflation Protection Feature

If long-term care costs increase due to inflation, you may have the opportunity to increase your elected Daily Maximum Benefit and consequently increase your Lifetime Maximum Benefit. This allows your benefits to remain meaningful over time.

Premiums Based On Age At Enrollment

The cost of coverage is based on your age when you enroll. If you apply now, you'll keep your monthly cost as low as possible.

Convenient Billing

Active Employees and their spouses pay premiums through payroll deduction from the employee's paycheck. All others will have the option of paying premiums through automatic bank withdrawal or direct billing.

Full Portability of Coverage

Even if you retire or leave your job at Avista Corporation, you will be able to continue your coverage at group rates.

Enroll Now!

You will have **guaranteed acceptance** into the plan regardless of your current health status if you meet one of the following requirements:

- A newly hired eligible employee or newly eligible employee applying within 90 days of first becoming eligible for this benefit
- An eligible employee who was on a leave of absence or disability during the designated 2005 enrollment period applying within 90 days of returning to work on a regular basis

Note: This is only a brief summary of some of the features in the Avista Corporation Long-Term Care Insurance Plan. Some plan features may vary by state. More details about plan provisions and exclusions are included in the enrollment kit.

Hyatt Legal Plans

A MetLife Company
METLAW® LEGAL SERVICES PLAN

ELIGIBILITY

You are eligible to participate in the Plan if you are a:

- Regular or full-time employee, or
- Regularly scheduled (20+ hours) part-time employee.
- **Employees classified as Casual, Students or Temporary are not eligible.**

IMPORTANT! You must enroll in this plan during the annual benefit open enrollment period each year. The election is irrevocable and cannot be changed during the plan year. This election will remain in effect for the entire benefit plan year, as long as you maintain payroll deduction status or until you are no longer an eligible employee of Avista Corporation. The cost for this plan is \$18 per month and deductions are taken from the first pay close of each month. You *cannot* enroll in this plan outside of the annual open enrollment. (New hires have 30 days from their date of hire to elect participation in this plan).

HOW TO GET LEGAL SERVICES

To use your Legal Plan, visit our web site at www.legalplans.com or call Hyatt Legal Plans' Client Service Center at 1-800-821-6400. Be prepared to give your Social Security Number or Membership Number. If you are the spouse or an eligible dependent of a Plan Member, you will need the Social Security Number or Membership Number of the Plan Member through whom you are eligible.

If you use Hyatt's web site at www.legalplans.com, click "Members Log In," and provide the Plan Member's Social Security Number or Membership Number when prompted.

If you call the Client Service Center, the Client Service Representative who answers your call will:

- verify your eligibility for services;
- make an initial determination of whether and to what extent your case is covered (the Plan Attorney will make the final determination of coverage);
- give you a Case Number that is similar to a claim number (you will need a new Case Number for each new case you have);
- give you the telephone number of the Plan Attorney most convenient to you; and
- answer any questions you have about your Legal Plan.

Then call the Plan Attorney and identify yourself as a legal plan member referred to them by Hyatt Legal Plans. You should request an appointment for a consultation. You should be prepared to give them your Case Number, the name of the legal plan you belong to and the type of legal matter you are calling about. Evening and Saturday appointments are available. If you wish, you may choose an out-of-network attorney. In a few areas, where there are no Participating Law Firms, you will be asked to select your own attorney. In both circumstances, Hyatt Legal Plans will reimburse you for these non-Plan attorneys' fees based on a set fee schedule.

WHAT SERVICES ARE COVERED

You and your eligible dependents are entitled to receive certain personal legal services. The available benefits are very comprehensive, but there are limitations and other conditions that must be met. Please take time to read the description of benefits carefully.

All benefits are available to you and your spouse and dependents, who are referred to below as Participant(s), unless otherwise noted.

ADVICE AND CONSULTATION

Office Consultation and Telephone Advice

This service provides the opportunity to discuss with an attorney any personal legal problems that are not specifically excluded. The Plan Attorney will explain the Participant's rights, point out his or her options and recommend a course of action. The Plan Attorney will identify any further coverage available under the Plan, and will undertake representation if the Participant so requests. If representation is covered by the Plan, the Participant will not be charged for the Plan Attorney's services. If representation is recommended, but is not covered by the Plan, the Plan Attorney will provide a written fee statement in advance. The Participant may choose whether to retain the Plan Attorney at his or her own expense, seek outside counsel, or do nothing. There are no restrictions on the number of times per year a Participant may use this service; however, for a non-covered matter, this service is not intended to provide the Participant with continuing access to a Plan Attorney in order to seek advice that would allow the Participant to undertake his or her own representation.

CONSUMER PROTECTION

Consumer Protection Matters

This service covers the Participant as a plaintiff, for representation, including trial, in disputes over consumer goods and services where the amount being contested exceeds the small claims court limit in that jurisdiction and is documented in writing. This service does not include disputes over real estate, construction, insurance or collection activities after a judgment.

Personal Property Protection

This service covers counseling the Participant over the phone or in the office on any personal property issue such as consumer credit reports, contracts for the purchase of personal property, consumer credit agreements or installment sales agreements. Counseling on pursuing or defending small claims actions is also included. The service also includes reviewing any personal legal documents and preparing promissory notes, affidavits and demand letters.

Small Claims Assistance

This service covers counseling the Participant on prosecuting a small claims action; helping the Participant prepare documents; advising the Participant on evidence, documentation and witnesses; and preparing the Participant for trial. The service does not include the Plan Attorney's attendance or representation at the small claims trial, collection activities after a judgment or any services relating to post-judgment actions.

IF YOU HAVE ANY QUESTIONS, PLEASE VISIT OUR WEB SITE AT WWW.LEGALPLANS.COM OR CALL HYATT LEGAL PLANS AT 1-800-821-6400.

Avista Corp. HIPAA Privacy Notice

THIS NOTICE DESCRIBES HOW MEDICAL INFORMATION ABOUT YOU MAY BE USED AND DISCLOSED AND HOW YOU CAN GET ACCESS TO THIS INFORMATION. PLEASE REVIEW IT CAREFULLY.

This notice is required by a federal law called the Health Information Portability and Accountability Act of 1996 (HIPAA). Under HIPAA, Avista must take steps to protect the privacy of your “protected health information” (PHI). PHI includes information that we have created or received regarding your health or payment for your health. It includes both your medical records and personal information such as your name, social security number, address, and phone number.

UNDER FEDERAL LAW, WE ARE REQUIRED TO:

- Protect the privacy of your PHI. All of our employees are required to maintain the confidentiality of PHI and receive appropriate privacy training.
- Provide you with this Notice of Privacy Practices explaining our duties and practices regarding your PHI.
- Follow the practices and procedures set forth in the Notice.

USES AND DISCLOSURES OF YOUR PROTECTED HEALTH INFORMATION BY AVISTA THAT DO NOT REQUIRE YOUR AUTHORIZATION

Avista uses and discloses PHI in a number of ways connected to payment for your care and health care operations. Some examples of how we may use or disclose your PHI without your authorization are listed below:

1. **Payment Functions.** We may use or disclose health information about you to determine eligibility for plan benefits, obtain premiums, facilitate payment for the treatment and services you receive from health care providers, determine plan responsibility for benefits, and to coordinate benefits. For example, payment functions may include reviewing the medical necessity of health care services, determining whether a particular treatment is experimental or investigational, or determining whether a treatment is covered under your plan.
2. **Health Care Operations.** We may use and disclose health information about you to carry out necessary insurance-related activities. For example, such activities may include underwriting, premium rating and other activities relating to plan coverage; conducting quality assessment and improvement activities; submitting claims for stop-loss coverage; conducting or arranging for medical review, legal services, audit services, and fraud and abuse detection programs; and business planning, management and general administration.
3. **Public Health.** As required by law, we may disclose your health information to public health authorities for purposes related to: preventing or controlling disease, injury or disability; reporting child abuse or neglect; reporting domestic violence; reporting to the Food and Drug Administration problems with products and reactions to medications; and reporting disease or infection exposure.
4. **Required by Law.** As required by law, we may use and disclose your health information.
5. **Health Oversight Activities.** We may disclose your health information to health agencies during the course of audits, investigations, inspections, licensure and other proceedings related to oversight of the health care system.

6. **Judicial and Administrative Proceedings.** We may disclose your health information in the course of any administrative or judicial proceeding.
7. **Law Enforcement.** We may disclose your health information to a law enforcement official for purposes such as identifying or locating a suspect, fugitive, material witness or missing person, complying with a court order or subpoena and other law enforcement purposes.
8. **Coroners, Medical Examiners and Funeral Directors.** We may disclose your health information to coroners, medical examiners and funeral directors. For example, this may be necessary to identify a deceased person or determine the cause of death.
9. **Organ and Tissue Donation.** We may disclose your health information to organizations involved in procuring, banking or transplanting organs and tissues, as necessary.
10. **Public Safety.** We may disclose your health information to appropriate persons in order to prevent or lessen a serious and imminent threat to the health or safety of a particular person or the general public.
11. **National Security.** We may disclose your health information for military, national security, and government benefits purposes.
12. **Worker's Compensation.** We may disclose your health information as necessary to comply with worker's compensation or similar laws.
13. **Education.** We may contact you to give you information about health-related benefits and services that may be of interest to you.
14. **Disclosures to Plan Sponsors.** We may disclose your health information to the sponsor of your group health plan, for purposes of administering benefits under the plan.

USES AND DISCLOSURES OF YOUR PROTECTED HEALTH INFORMATION BY AVISTA THAT REQUIRE US TO OBTAIN YOUR AUTHORIZATION

Except as described in this Notice of Privacy Practices, we will not use or disclose your health information without written authorization from you. If you do authorize us to use or disclose your health information for another purpose, you may revoke your authorization in writing at any time. If you revoke your authorization, we will no longer be able to use or disclose health information about you for the reasons covered by your written authorization, though we will be unable to take back any disclosures we have already made with your permission.

Statement of Your Health Information Rights

1. **Right to Request Restrictions.** You have the right to request restrictions on certain uses and disclosures of your health information. Avista is not required to agree to the restrictions that you request. If you would like to make a request for restrictions, you must submit your request in writing to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave., Spokane, WA 99202.
2. **Right to Request Confidential Communications.** You have the right to receive your health information through a reasonable alternative means or at an alternative location. To request confidential communications, you must submit your request in writing to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave., Spokane, WA 99202. We are not required to agree to your request.
3. **Right to Inspect and Copy.** You have the right to inspect and copy health information about you that may be used to make decisions about your plan benefits. To inspect and copy such information, you must submit your request in writing to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave., Spokane,

WA 99202. If you request a copy of the information, we may charge you a reasonable fee to cover expenses associated with your request.

4. **Right to Request Amendment.** You have a right to request that Avista amend your health information that you believe is incorrect or incomplete. We are not required to change your health information and if your request is denied, we will provide you with information about our denial and how you can disagree with the denial. To request an amendment, you must make your request in writing to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave., Spokane, WA 99202. You must also provide a reason for your request.
5. **Right to Accounting of Disclosures.** You have the right to receive a list or “accounting of disclosures” of your health information made by us, except that we do not have to account for disclosures made for purposes of payment functions or health care operations, or made to you. To request this accounting of disclosures, you must submit your request in writing to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave. Spokane, WA 99202. Your request should specify a time period of up to six years and may not include dates before April 14, 2003. Avista will provide one list per 12-month period free of charge; we may charge you for additional lists.
6. **Right to Paper Copy.** You have a right to receive a paper copy of this Notice of Privacy Practices at any time. To obtain a paper copy of this Notice, send your written request to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave., Spokane, WA 99202. You may also obtain a copy of this Notice at our HR website, <http://avanet/departments/hr/>.

CHANGES TO THIS NOTICE OF PRIVACY PRACTICES

Avista reserves the right to amend this Notice of Privacy Practices at any time in the future and to make the new Notice provisions effective for all health information that it maintains. We will promptly revise our Notice and distribute it to you whenever we make material changes to the Notice. Until such time, Avista is required by law to comply with the current version of this Notice.

COMPLAINTS

Complaints about this Notice of Privacy Practices or about how we handle your health information should be directed to the Privacy Administrator - MSC-39, Avista Corp, 1411 E. Mission Ave. Spokane, WA 99202. Avista will not retaliate against you in any way for filing a complaint. All complaints to Avista must be submitted in writing. If you believe your privacy rights have been violated, you may file a complaint with the Secretary of the Department of Health and Human Services.

CONTACT INFORMATION FOR QUESTIONS

Questions about this Notice of Privacy Practices or about how we handle your health information should be directed to Keith Rust - Benefits Administrator, Avista Corp, 1411 E. Mission Ave. Spokane, WA 99202. (509) 495-4751.

EFFECTIVE DATE OF THIS NOTICE: APRIL 14, 2003

Notice

Every effort has been made to describe the provisions of the Benefits Plans with accuracy and clarity. This summary and the summaries of the plans that make up the Benefits Plans will give you a good overview of how the Benefits Plan works. Because it is only a summary, however, it omits much of the detail found in the Benefits Plan document itself. Should any discrepancy exist between the Benefits Plan and this summary or the summaries of the plans that make up the Benefits Plan, the official Benefits Plan is the controlling document and is binding upon all parties. The Benefits Plan is available to any Benefits Plan participant for review at Avista Corporation in the Human Resources office during regular business hours.

This summary and the summaries of the plans that make up the Benefits Plan are important documents, and you should keep them in a safe place for future reference. If the Benefits Plan is changed in any way that affects your eligibility or benefits, you will be given an explanation of the changes.

I you would like a copy of any of the Summary Plan Descriptions (SPD) for any of the benefit programs outlined in this Benefit Summary Booklet, please contact the Human Resources department in writing detailing which SPD you would like to receive. Written requests can be mailed to Keith Rust, Avista Corp. 1411 E. Mission Ave. Spokane, WA 99208

More detailed Benefit Information can be found on-line on the HR Website at: <http://avanet/departments/hr/>

Review of Executive Officer Compensation

CONFIDENTIAL Attachment F **Total Executive Officer Base Pay Summary**

REDACTED

February 28, 2012

Confidential Attachment F

**Confidential per Protective Order in UTC Dockets
UE-110876 and UG-110877**

Page 1 of 1

Review of Executive Officer Compensation

CONFIDENTIAL Attachment G **Towers Watson Total Direct Compensation** **Review**

REDACTED

February 28, 2012

Confidential Attachment G

**Confidential per Protective Order in UTC Dockets
UE-110876 and UG-110877**