

Avista Corp.
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Spokane, Washington 99220-3727
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February 15, 2006

Via Overnight Mail

Carole Washburn, Executive Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

RE: Application of Avista Corporation

Enclosed for filing with the Commission is the original and 12 copies along with an electronic copy provided on compact disc of the Company's "Application of Avista Corporation for an Order Approving a Corporate Reorganization To Create a Holding Company."

Please direct any questions regarding this filing to Liz Andrews at (509) 495-8601.

Sincerely,

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

Kelly Norwood
Vice President, State and Federal Regulation
Avista Corporation

Enclosures

c: See attached service list

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Application requesting authorization for corporate reorganization, by mailing a copy thereof, postage prepaid to the following:

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250


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Public Counsel Section
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Executive Director
Northwest Industrial Gas Users
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Edward A. Finklea
Chad M. Stokes
Northwest Industrial Gas Users
Cable Huston Benedict
Haagensen & Lloyd LLP
1001 SW 5th Avenue, Suite 2000
Portland, OR 97204-1136

Dated at Spokane, Washington this 15th day of February 2006.



Patty Olsness
Rates Coordinator

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of Avista)
Corporation d/b/a Avista Utilities for an)
Order Approving a Corporate Reorganization))
To Create a Holding Company,)
AVA Formation Corp.)
_____)

DOCKET NO. UE-06 _____

DOCKET NO. UG-06 _____

APPLICATION OF AVISTA CORPORATION

I. INTRODUCTION

1 Pursuant to Chapter 80.12 RCW and WAC 480-143-120, Avista Corporation, doing business as Avista Utilities (hereinafter Avista, Company or Applicant), at 1411 East Mission Avenue, Spokane, Washington, hereby applies for an order from the Washington Utilities and Transportation Commission (the “Commission”) for authority to form a holding company in the manner and under the terms and conditions set forth in this Application.

2 Avista believes that a holding company structure would allow the Company to better respond to the changing business environment of the electric and natural gas utility industry, while providing the opportunity to further insulate its utility business from its non-utility businesses. As discussed below, the plan does not entail the transfer of any utility assets, nor would the Commission’s existing jurisdiction over Avista Utilities’ assets be altered.

II. GENERAL INFORMATION

3 **Communications in reference to this Application should be addressed to:**

Kelly O. Norwood
Vice President, State and
Federal Regulation
Avista Corporation
P.O. Box 3727
1411 E. Mission Avenue, MSC-13
Spokane, Washington 99220-3727
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David J. Meyer
Vice President and Chief Counsel for
Regulatory and Governmental Affairs
Avista Corporation
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1411 E. Mission Avenue, MSC-13
Spokane, Washington 99220-3727
Phone: (509) 495-4316
Facsimile: (509) 495-8851
david.meyer@avistacorp.com

Description of Business and Properties:

4 Avista Corporation, doing business as Avista Utilities, is a utility that provides service to approximately 338,000 electric customers and 205,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. The largest community served in the area is Spokane, Washington, which is the location of the corporate headquarters. Avista Utilities also serves 92,400 natural gas customers in Oregon.

5 Avista Capital, Inc., is a wholly-owned subsidiary of Avista Corporation, and is the parent corporation of Avista Corporation's non-regulated subsidiary investments and operations.¹

III. REORGANIZATION PROPOSAL

6 Avista proposes to modify its current corporate structure through the establishment of a holding company (the "Reorganization"). Under the Reorganization, a holding company (to be

¹ The only exceptions relate to Avista Receivables, Inc., a special purpose subsidiary formed in connection with the sale of accounts receivable, and Spokane Energy, LLC, which was formed for the purpose of implementing a long-term capacity contract between Avista Utilities and Portland General Electric Company. At present, these entities are directly owned by Avista Corporation.

named AVA Formation Corp.²) would be formed as the parent corporation (the “Parent Company” or “AVA”) of the existing regulated company Avista Corporation (to be renamed Avista Utilities, Inc.). The Parent Company would also be a Parent Company of Avista Capital, Inc., which would continue to hold the non-regulated subsidiaries.³

7 Attached to this application is **Appendix A**, which shows a comparison of the current and proposed structures. Currently the Utility is the corporate parent (Avista Corporation) and does business as (dba) Avista Utilities. In the proposed structure, Avista Utilities would become a separate company under the new holding company, AVA (or Parent Company). Avista Corporation would no longer exist as an operating entity. Avista Capital, Inc. would remain a business entity and would be owned by the new AVA holding company.

IV. REORGANIZATION PURPOSE

8 The holding company structure is a well-established form of organization for companies engaging in multiple lines of business, and is increasingly prevalent in the utility industry. Many utilities are organized under a public holding company structure and Avista is one of the few investor-owned utilities in the Pacific Northwest that is not currently organized under a holding company structure.

9 Other utilities in the Pacific Northwest have received approvals for similar holding company structure reorganizations in recent years. For example, the WUTC in 2000 approved, with conditions, Puget Sound Energy’s proposed corporate reorganization to create a holding company

² This name will be used in the interim for purposes of designating the holding company; Avista is in the process of selecting a final name, and when selected, will notify the Commission and interested parties.

³ The only exceptions would relate to Avista Receivables, Inc. and Spokane Energy, LLC, which would continue to remain subsidiaries of Avista Utilities.

structure. (See Docket No. UE-991779) In 1998, the Idaho Power Company received approval, with conditions, from the IPUC (Order No. 27348 in Case No. IPC-E-97-11), and the OPUC (Order No. 98-056 in Docket No. UM 877) of their application to form a holding company and the execution of a Share Exchange Agreement.

10 Avista did not pursue the formation of a holding company structure prior to this time due primarily to the requirements of the Public Utility Holding Company Act of 1935 or “PUHCA.” PUHCA would have required Avista to significantly change its corporate structure to become a registered holding company, and would have imposed significant reporting and accounting burdens on the Company. The Company’s multi-state operations would have made it very difficult, if not impossible, to receive an exemption from PUHCA. However, with the recent repeal of PUHCA 1935 and the enactment of PUHCA 2005, effective February 8, 2006, the distinction between registered holding companies and exempt holding companies that existed under PUHCA 1935 is eliminated, and the accounting and reporting requirements are reduced.

11 With this recent change, Avista considers it to be in the best interest of the Company, its customers, and its shareholders, to change the corporate structure of Avista into a holding company structure. This Reorganization would provide additional protection for ratepayers by “ring fencing” or further separating utility operations from the Company’s other non-regulated businesses. Such separation would further insulate Avista Utilities and its customers from the risks associated with operating other businesses, while at the same time, permitting greater financing flexibility afforded by a holding company structure.

12 The proposed Reorganization would not entail the transfer of Utility assets, nor would it adversely affect the financial, technical, and managerial abilities of Avista Utilities. Avista

customers would see no change in the Utility or its operations, because the Utility would continue to provide the same high-quality service as before the Reorganization. After the Reorganization, Avista Utilities would continue to be subject to the same regulatory jurisdiction of the Commission as to rates, service, accounting and other general matters of utility operations.

13 Avista employees currently reporting to Avista Corporation (dba Avista Utilities) would not change after the Reorganization with the exception of the five senior Officers who would also report to the new AVA holding company. The allocation of these Officers salaries and expenses as appropriate between Avista's regulated and non-regulated businesses would follow the same procedures as under the Company's current structure.

V. COMMITMENT TO AVISTA CUSTOMERS

14 Avista's Reorganization proposal is designed in a manner that fully protects the interests of Avista Utilities' customers. In fact, it further insulates customers from the risks associated with Avista's unregulated operations. Avista's Reorganization proposal includes the following protections for customers:

- 15 1. The cost of the formation of the Holding Company would not be included in future Avista Utility ratemaking proposals.
- 16 2. Avista would continue to provide the Commission with access to information for the Holding Company and all subsidiaries for audit purposes.
- 17 3. Avista would continue to maintain prudent utility operating standards.
- 18 4. Avista would continue to maintain internal controls that preclude "cross-subsidization" between the utility and other subsidiaries.

19 5. Avista would continue to assure segregation of operations among the utility and other
subsidiary entities, prevent co-mingling of assets, and would continue to comply with all
applicable statutes, rules, and Commission practices regarding property transfers, affiliated or
subsidiary transactions, and securities transactions.

20 6. Avista would fairly allocate Holding Company costs (or corporate support costs)
among the utility and other subsidiaries.

21 Avista's current cost allocation procedures between Avista's regulated and non-regulated
businesses would not change after the Reorganization. Currently, there are transactions or costs for
services between the Utility and its subsidiaries that are accounted for appropriately under applicable
statutes and rules established by this Commission. For example, charges that relate to corporate
services provided to subsidiaries are directly billed to subsidiaries at cost. Examples of these
charges are salaries of officers or general office employees who spend time on corporate support,
such as managerial functions, accounting, federal income tax filing, payroll, graphic services, etc.
The revenues and expenses associated with these types of transactions are reviewed by Commission
staff and other interested parties during rate cases and through existing Commission reporting
requirements. The basis of assigning costs between the Utility and any of Avista's subsidiaries
would remain unchanged through approval of the Reorganization.

VI. REORGANIZATION PROCESS

22 The proposed activities and timeline for the Reorganization are as follows:

- Avista received authorization from Avista Corporation's Board of Directors on February 10th to proceed with the Reorganization.
- Avista will file applications during the week of February 13th requesting approval of the Reorganization with the Washington Utilities and Transportation Commission, the Idaho

Public Utilities Commission, the Oregon Public Utility Commission, and the Montana Public Service Commission.

- Avista will file an application during the week of February 13th requesting approval of the Reorganization with the Federal Energy Regulatory Commission (FERC).
- Avista will file a registration statement and proxy materials during the week of February 13th with the Securities and Exchange Commission (SEC).
- Avista will assess requirements related to its currently outstanding debt and contract obligations and seek consents from appropriate parties.
- Avista will seek shareholder approval of the Reorganization at the May 11th annual meeting of shareholders.
- Following shareholder approval, all corporate and reorganization matters would be put in place subject to, and conditioned on, obtaining state and federal regulatory approvals and satisfaction of any other conditions identified by Avista.
- Following receipt of all regulatory approvals, Avista would execute the “Plan of Exchange” to form the Holding Company structure as described below.
- Completion of the Reorganization would be expected by the end of 2006.

VII. PLAN OF SHARE EXCHANGE

23 1. The creation of the holding company would be accomplished under the terms and conditions of a Plan of Share Exchange (“Plan of Exchange”) pursuant to Chapter 23B.11 of the Revised Code of Washington. The Plan of Exchange has been approved by the Board of Directors of Avista Corporation (Avista Utilities) and the Parent Company. (The Parent Company is referred to as “AVA Formation Corp.” in the Plan of Exchange.) AVA was incorporated in the State of Washington on February 10, 2006.

24 Under the terms of the Plan of Exchange, AVA would issue common stock in the same number of shares as there are shares of Avista Corporation common stock outstanding. Each share of Avista Corporation common stock would then be exchanged for one share of common stock in AVA, except to the extent that any holders of Avista Corporation common stock are entitled to dissent to the proposed transaction and receive payment of their shares pursuant to such dissenter’s

rights. After the share exchange is completed, the Parent Company would own all the common stock of Avista Corporation and the former holders of the common stock of Avista Corporation would hold the common stock of the Parent Company. The outstanding first mortgage bonds, unsecured debt and preferred stock, and all other contracts and agreements to which Avista is a party, would remain with Avista Utilities. A copy of the Plan of Exchange is attached as **Appendix B** to this application.

25 2. Avista Capital, Inc., is a wholly owned affiliate of Avista Corporation, which holds the stock of Avista Corporation's non-regulated affiliate investments. In conjunction with the Reorganization, ownership of Avista Capital, Inc. would be transferred from Avista Corporation to the Parent Company.

VIII. COMPLIANCE WITH CHAPTER 80.12 RCW AND WAC 480-143-120

26 Avista Corp. is a public service company subject to the Commission's jurisdiction. *RCW 80.04.010*. Commission authorization is necessary under RCW 80.12.020 for Avista to sell, lease, assign or otherwise dispose of, or merge or consolidate, any of its franchises, properties or facilities with any other public service company. Under RCW 80.12.040, Commission authorization is necessary before another public service company can, directly or indirectly, purchase, acquire, or become the owner of any of the franchises, properties, facilities, capital stocks or bonds of Avista. More generally, RCW 80.01.040 establishes the Commission's general powers and duties and, among other things, empowers the Commission to regulate in the public interest "the rates, services, facilities, and purchases" of all persons engaging within Washington in the business of supplying any utility service or commodity to the public for compensation and "related activities." On the basis of

the preceding statutory authority, the Commission has concluded it has jurisdiction over transactions “whenever the control of a plainly jurisdictional public utility changes through a corporate transaction for the transfer of the whole or a controlling interest in the company.” *Docket No. UE-981672, In the Matter of the Application of PacifiCorp and Scottish Power plc (“PacifiCorp/ScottishPower”), Second Supplemental Order at 9 (March 1999).*

27 WAC 480-143-170 establishes the standard by which the Commission reviews applications filed pursuant to Chapter 80.12 RCW. The rule states that:

28 If, upon examination of any application and accompanying exhibit, or upon a hearing concerning the same, the commission finds that the proposed transaction is not consistent with the public interest, it shall deny the application.

29 The Commission has found that this standard does not require a showing of positive benefits to the public in order to approve the transaction.

30 The standard in our rule does not require the Applicants to show that customers, or the public generally, will be made better off if the transaction is approved and goes forward. In our view, Applicants’ initial burden is satisfied if they at least demonstrate no harm to the public interest.

31 *Docket No. UE-981627, PacifiCorp/ScottishPower, Third Supplemental Order at 2, 3.*

32 In August of 2000, the Commission issued its *Order Accepting Stipulation and Approving Corporate Reorganization to Create a Holding Company, with Conditions*. (Docket No. UE-991779), authorizing the creation of a holding company structure for Puget Sound Energy, Inc., under the provisions of Chapter 80.12 RCW.⁴ Avista’s application, including the conditions set forth

⁴ While Puget Sound Energy, in Docket No. UE-99179, requested an order of the Commission determining that it had no jurisdiction over its reorganization to create a holding company, it nevertheless filed an application seeking Commission approval, in light of Commission precedent asserting jurisdiction over reorganizations involving Washington public service companies. (See, Application of PacifiCorp and Scottish Power plc, supra,

herein, is substantially identical to what was approved for Puget Sound Energy in Docket No. UE-991779, above.

IX. REQUEST FOR APPROVAL

33 Avista respectfully requests approval of the proposed corporate reorganization whereby Avista Utilities would become a subsidiary of AVA, which would own all of the common stock of Avista Utilities. As noted above, the proposed Reorganization would allow Avista to implement a corporate structure that would enable further separation of its regulated utility business from its non-regulated businesses. This would enhance Avista's ability to respond to the changing industry environment and would permit greater financing flexibility.

34 The proposed Reorganization is consistent with the public interest. Avista Utilities' customers would see no change due to this transaction, and thus satisfies the "no harm" standard. Avista Utilities would continue to own, operate, and manage all of its facilities used in the generation, transmission and sale of electricity and the distribution of natural gas. The Reorganization would not affect the ability of the Commission to regulate Avista Utilities. Any specific transactions between Avista Utilities and other subsidiaries of AVA Corporation would be subject to the filing requirements of Chapter 80.16 RCW and the reporting requirements of WAC 480-90-264 and 480-100-264.

35 The Company respectfully requests that the Commission issue an order authorizing the Company to form a holding company structure in the manner and under the terms and conditions set forth in this application.

Dated at Spokane, Washington this ^{15th} day of February 2006.

AVISTA CORPORATION

BY Kelly O. Norwood
Kelly O. Norwood
Vice President, State and Federal Regulation

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is Vice President, State and Federal Regulation of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Application, knows the contents thereof, and believes the same to be true.

Kelly O. Norwood

SIGNED AND SWORN to before me this 15th day of February 2006, by Kelly O. Norwood.



Patty Olsness
NOTARY PUBLIC in and for the State of
Washington, residing at Spokane.

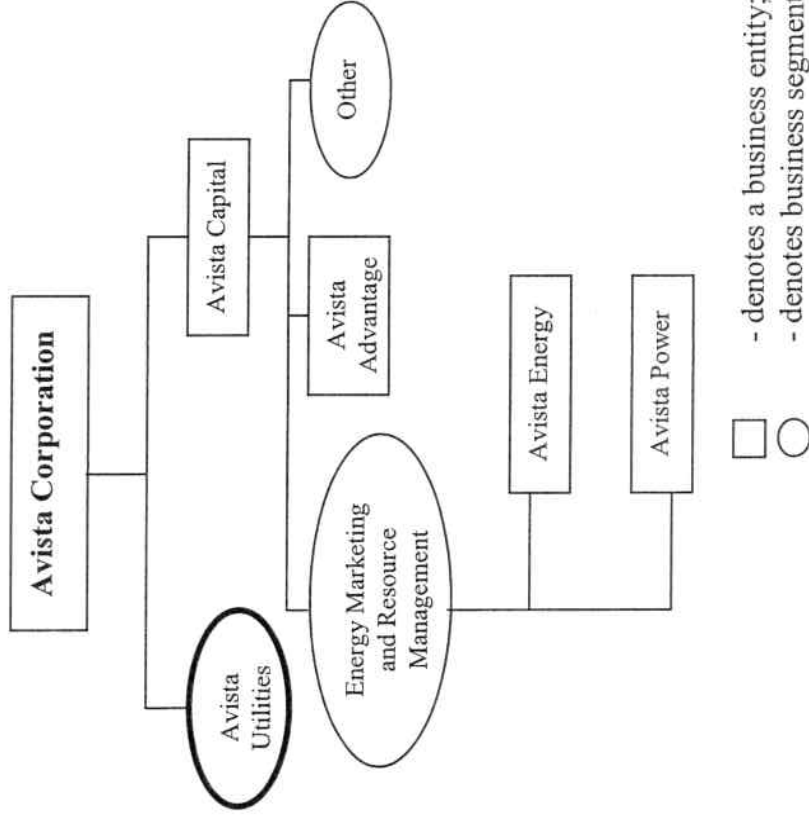
Commission Expires: 2/22/06

APPENDIX A

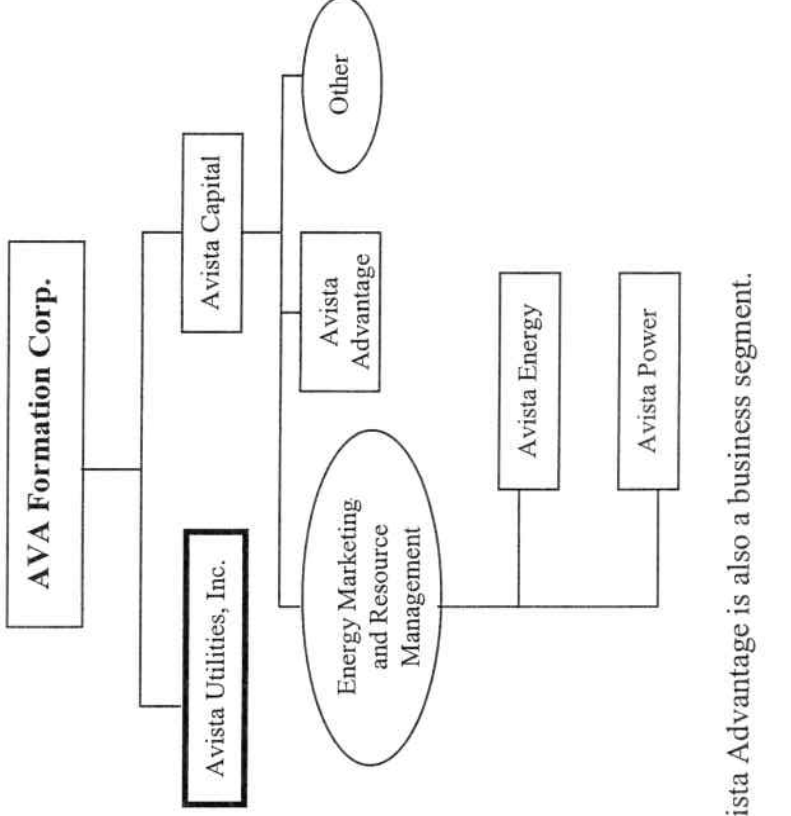
COMPARISON OF ORGANIZATION STRUCTURES

Avista Corporation Comparison of Organization Structures

Current Organization Structure



Proposed Organization Structure



□ - denotes a business entity; Avista Advantage is also a business segment.
 ○ - denotes business segment.

APPENDIX B

PLAN OF EXCHANGE

PLAN OF SHARE EXCHANGE

THIS PLAN OF SHARE EXCHANGE (the “**Plan of Exchange**”), dated as of February 10, 2006, is between Avista Corporation, a Washington corporation (“**Avista**”), the corporation whose shares of common stock will be acquired pursuant to the exchange provided for in this Plan of Exchange (the “**Exchange**”), and [AVA Corporation], a Washington corporation (“**AVA**”), the acquiring corporation. Avista and AVA, together, are referred to in this Plan of Exchange as the “**Companies**.”

RECITALS:

A. The authorized capital of Avista consists of (a) 200,000,000 shares of common stock, without nominal or par value (“**Avista Common Stock**”), of which 48,593,873 shares were issued and outstanding as of January 15, 2006, and (b) 10,000,000 shares of preferred stock, without nominal or par value (“**Avista Preferred Stock**”), of which 280,000 shares were issued and outstanding as of January 15, 2006. The number of issued and outstanding shares of Avista Common Stock is subject to increase to the extent that additional shares are issued prior to the Effective Time (as defined below).

B. AVA is a wholly-owned subsidiary of Avista, with authorized capital of (a) 200,000,000 common shares, without nominal or par value (“**AVA Common Stock**”), of which one hundred (100) shares are issued and outstanding and owned by Avista, and (b) 10,000,000 preferred shares, without nominal or par value, none of which are issued.

C. The Boards of Directors of the Companies deem it desirable and in the best interests of the Companies and the shareholders of Avista that, at the Effective Time, each share of Avista Common Stock be exchanged for one share of AVA Common Stock, with the result that AVA becomes the owner of all outstanding shares of Avista Common Stock and that each holder of shares of Avista Common Stock shall automatically become the holder of an identical number of shares of AVA Common Stock, all on the terms and subject to the conditions set forth below.

D. The Boards of Directors of the Companies have each adopted this Plan of Exchange. The Board of Directors of Avista has voted Avista’s shares of AVA Common Stock to approve, and recommended that the shareholders of Avista approve, this Plan of Exchange pursuant to the Washington Business Corporation Act, Title 23B, Revised Code of Washington, as amended (the “**Act**”), and specifically Section 23B.11.030 of the Act.

NOW, THEREFORE, the Companies agree as follows:

ARTICLE I

This Plan of Exchange shall be submitted to the holders of Avista Common Stock for approval as provided by Section 23B.11.030 of the Act. The affirmative vote of at least two-thirds (2/3) of the outstanding shares of Avista Common Stock shall be necessary to approve the Plan of Exchange.

ARTICLE II

Subject to the terms and conditions of this Plan of Exchange, the Exchange shall become effective immediately following the close of business on the date of filing with the Secretary of State of the State of Washington (the “**Secretary of State**”) of articles of share exchange pursuant to Section 23B.11.050 of the Act (the “**Articles**”), or at such later time and date as may be stated in the Articles (the time and date at and on which the Exchange becomes effective, the “**Effective Time**”).

ARTICLE III

A. At the Effective Time:

(1) Each share of Avista Common Stock issued and outstanding immediately prior to the Effective Time shall be automatically exchanged for one share of AVA Common Stock, which share shall be fully paid and nonassessable.

(2) AVA shall acquire and become the owner and holder of each issued and outstanding share of Avista Common Stock so exchanged.

(3) Each share of AVA Common Stock issued and outstanding immediately prior to the Effective Time shall be canceled and shall constitute an authorized but unissued share of AVA Common Stock.

(4) Each right to receive shares of Avista Common Stock and each unexpired and unexercised option to purchase shares of Avista Common Stock (each, an “**Avista Grant**”) under an Avista executive compensation or employee benefit plan (each, an “**Avista Plan**”), whether vested or unvested, shall, pursuant to an amendment to each such Avista Plan, become the right to receive an equal number of shares of AVA Common Stock or an option to purchase, at the same price per share specified in such Avista Grant, that number of shares of AVA Common Stock equal to the number of shares of Avista Common Stock that could have been purchased immediately prior to the Effective Time (assuming full vesting), as the case may be, under the Avista Plans. Each Avista Grant shall be subject to the same terms and conditions as are set forth in the Avista Plans.

(5) Each share of Avista Common Stock held under the Avista Direct Stock Purchase and Dividend Reinvestment Plan (the “**Dividend Reinvestment Plan**”) immediately prior to the Effective Time shall automatically be exchanged for an equal number (including fractional and uncertificated shares) of shares of AVA Common Stock, and shall continue to be held under the Dividend Reinvestment Plan.

B. Each former holder of shares of Avista Common Stock shall be entitled to receive only (1) shares of AVA Common Stock in exchange for such Avista Common Stock as provided in this Plan of Exchange or (2) payment of the fair value of such shares of Avista Common Stock under Chapter 23B.13 of the Act.

C. As of the Effective Time, AVA shall become a participating employer of the Avista Plans as in effect immediately prior to the Effective Time. The Avista Plans shall be appropriately amended to provide for the issuance and delivery of AVA Common Stock on and after the Effective Time on substantially the same terms as Avista Common Stock would have been issuable thereunder immediately prior to the Effective Time.

D. As of the Effective Time, AVA shall succeed to the Dividend Reinvestment Plan as in effect immediately prior to the Effective Time, and the Dividend Reinvestment Plan shall be appropriately amended to provide for the issuance and delivery of AVA Common Stock on and after the Effective Time.

E. As of the Effective Time, the Rights Agreement, dated as of November 15, 1999, between Avista and the Bank of New York as successor Rights Agent, as amended, shall terminate and each preferred share purchase right granted pursuant to this Rights Agreement shall expire.

ARTICLE IV

The filing of the Articles with the Secretary of State and the consummation of the Exchange are subject to satisfaction of each of the following conditions precedent:

A. The approval by the holders of Avista Common Stock provided for in Article I of this Plan of Exchange;

B. the receipt of such orders, authorizations, approvals, waivers or disclaimers of jurisdiction from the Washington Utilities and Transportation Commission, the Idaho Public Utility Commission, the Montana Public Service Commission, the Oregon Public Utility Commission, the Federal Energy Regulatory Commission, and all other regulatory bodies, boards or agencies as are or may be required in connection with the Exchange and related transactions, which orders, authorizations, approvals, waivers and disclaimers shall remain in full force and effect, and shall not include, in the sole judgment of the Board of Director of Avista, unacceptable conditions;

C. the effectiveness of a registration statement under the Securities Act of 1933, as amended, relating to AVA Common Stock to be issued in the Exchange;

D. the approval by the New York Stock Exchange for the listing of the AVA Common Stock to be issued in the Exchange; and

F. the receipt by Avista of a favorable opinion of Heller Ehrman LLP covering certain United States federal income tax matters.

ARTICLE V

Following the Effective Time, each holder of an outstanding certificate or certificates that represented shares of Avista Common Stock immediately prior to the Effective Time may, but shall not be required to, surrender such certificates to AVA's transfer agent for cancellation and reissuance of a new certificate or certificates in such holder's name or for cancellation and transfer, and each such holder or transferee shall be entitled to receive a certificate or certificates representing the same number of shares of AVA Common Stock as the shares of Avista Common Stock previously represented by the certificate or certificates surrendered. Until so surrendered or presented for exchange or transfer, each outstanding certificate that, immediately prior to the Effective Time, represented Avista Common Stock shall be deemed and shall be treated for all purposes to represent the ownership of the same number of shares of AVA Common Stock as though such surrender or exchange or transfer had taken place. The holders of Avista Common Stock at the Effective Time shall have no right at and after the Effective Time to have any shares of Avista Common Stock transferred on the stock transfer books of Avista (such stock transfer books being deemed closed for this purpose at the Effective Time), and each record of a holder of outstanding certificate(s) that represented shares of Avista Common Stock immediately prior to the Effective Time shall be recorded as representing the ownership by such holder of the same number of shares of AVA Common Stock in the stock transfer books of AVA at the Effective Time.

ARTICLE VI

A. This Plan of Exchange may be amended, modified or supplemented, or compliance with any provision of this Plan of Exchange may be waived, at any time prior to the Effective Time (including, without limitation, after receipt of the affirmative vote of holders of Avista Common Stock as provided in Article I above), by the mutual consent of the Boards of Directors of Avista and AVA, so long as such amendment, modification, supplement or waiver would not, in the sole judgment of the Board of Directors of Avista, materially and adversely affect the shareholders of Avista.

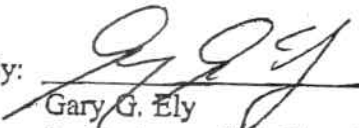
B. This Plan of Exchange may be terminated and the Exchange and related transactions abandoned at any time prior to the Effective Time (including, without limitation, after receipt of the affirmative vote of holders of Avista Common Stock as

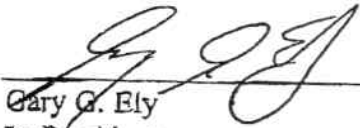
provided in Article I above), if the Board of Directors of Avista determines, in its sole judgment, that consummation of the Exchange would for any reason be inadvisable or not in the best interests of Avista or its shareholders.

EXECUTED by each of the Companies, pursuant to authorization and approval given by its Board of Directors, as of the date first above written.

AVISTA CORPORATION

AVA FORMATION CORP.

By: 
Gary G. Ely
Its Chairman, President & CEO

By: 
Gary G. Ely
Its President