

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	Washington	DATE PREPARED:	08/8/2007
CASE NO:	UE-070804/UG-070805	WITNESS:	Malyn Malquist
REQUESTER:	Public Counsel	RESPONDER:	Rich Stevens
TYPE:	Data Request	DEPT:	Corporate Risk Management
REQUEST NO.:	PC -144	TELEPHONE:	(509) 495-4330

REQUEST:

Please identify any lawsuits or claims from 2002 to the present where Directors' and Officers' liability insurance could have been called upon to pay some or all of the claim had it been found meritorious. Provide a brief description of each such lawsuit or claim, a procedural history, and (if completed) the outcome, including any funds paid by the Directors' and Officers' liability insurance policy.

RESPONSE:

See the attached copies of the "Commitments and Contingencies – Class Action Securities Litigation," Notes, which are excerpts from the Financial Statements in the Company's Form 10-Ks filed with the SEC for the years 2002 through 2006.

Four complaints with essentially the same allegations were filed in the United States District Court for the Eastern District of Washington (the Court) in September through November of 2002. The complaints were filed as class action proceedings against Avista Corp., Thomas M. Matthews, Gary G. Ely and Jon E. Eliassen. The complaints were asserted on behalf of all persons who purchased, converted, exchanged or otherwise acquired the Company's common stock in the period November 23, 1999 to August 13, 2002. The four complaints were filed on the following dates by or on behalf of the following persons:

1. September 27, 2002 by Ronald R. Wambolt
2. October 9, 2002 by Gail West
3. November 7, 2002 by Michael Atlas
4. November 21, 2002 by Peter Arnone

On February 3, 2003 the Court issued an order consolidating the complaints under the name "in re Avista Corp. Securities Litigation". On August 19, 2003, the plaintiffs filed their consolidated amended class action complaint (CAC) against the same parties with the Court. The Company filed for dismissal of the CAC in October 2003, which was denied by the Court in an order issued July 31, 2004. In November 2004, the Company filed its answer to the CAC denying the plaintiffs' allegations. On June 13, 2005, the Company filed for reconsideration of its earlier motion for dismissal and on October 19, 2005, the Court granted the Company's motion for dismissal. The order to dismiss was issued without prejudice, which allowed the plaintiffs to amend their complaint

On November 10, 2005, the plaintiffs filed a second amended class action complaint (SCAC). On January 6, 2006, the Company filed a motion to dismiss the SCAC. On June 2, 2006 the Court issued an order denying the Company's motion for dismissal of the SCAC. The plaintiffs filed a motion for class certification on September 16, 2006. Procedural motions and a motion

for dismissal based on the claims being barred by the statute of limitations were pending before the Court after the start of 2007 and trial was scheduled to begin November 13, 2007.

In January 2007, the parties began a process of mediation to explore settlement of the litigation. On June 1, 2007, the parties reached an agreement for settling the litigation. The settlement agreement provides for certification of the plaintiff class and a full release by the class and dismissal with prejudice of all claims against Avista Corp. in consideration of payment of \$9.5 million into a settlement fund. The settlement payment and litigation defense costs will be paid by Avista Corp.'s insurance company with the exception of the Company's \$1 million self insured retention. The settlement agreement further provides that the individual defendants Mathews, Ely and Eliassen will be dismissed from the lawsuit.

The Company vigorously contested this lawsuit since it commenced. It has denied, and continues to deny, in their entirety the allegations of wrongdoing in the lawsuit, including the allegations that Avista Corp. made any false or misleading statements in regard to the Company's business, business practices, risk management or trading activity. The Company denies that it engaged in any improper trading in the California energy market or in any other market, and it denies that the price of its stock was artificially inflated by reason of the misrepresentations and omissions alleged in the lawsuit. There have been no adverse determinations by any court against Avista Corp. or any of the defendants on the merits of the claims asserted by the plaintiffs in the lawsuit, and the Company denies that shareholders were harmed by the conduct alleged in the lawsuit. Neither the settlement agreement nor any of its terms or provisions, nor the Company's decision to settle the lawsuit, should be construed as an admission or concession of any kind of the merit or truth of any of the allegations of wrongdoing in the lawsuit, or of any fault, liability or wrongdoing whatsoever on the part of Avista Corp. The Company believes that throughout the class period alleged in the lawsuit it fully and adequately disclosed all material facts regarding the Company and made no misrepresentations of material facts regarding Avista Corp. The Company nonetheless considers it desirable to settle the lawsuit in order to avoid the cost and risks of further litigation and trial, and to dispose of burdensome and protracted litigation.

The settlement agreement must be approved by the Court before it will become effective. The Court's approval process has several steps. The settlement agreement is first presented to the Court for preliminary approval. If the Court grants preliminary approval of the settlement agreement, then there will follow a period in which plaintiffs' counsel give notice of and administer the settlement agreement. A fairness hearing will be held at which the Court will judge the fairness, reasonableness and adequacy of the settlement agreement, including payment of plaintiffs' and plaintiffs' counsel's fees and expenses, and at which any objections to the settlement agreement will be heard. If the Court then grants final approval of the settlement agreement, it will enter an order certifying the class and dismissing the claims in the lawsuit with prejudice. The Court's decision can be appealed. If the settlement agreement becomes effective, the settlement fund, less various costs of administration and plaintiffs' costs and attorneys' fees, will be distributed to class members who have filed an approved claim.