

Customer/Financial - Renew faith and rebuild trust customers have in Avista/Improve the financial strength of Avista.

<p>Holding Company Proposal</p>	<p>On February 15th, the Company filed applications with the Washington, Idaho, Oregon and Montana Commissions and the FERC to modify its current corporate structure through the establishment of a holding company. The FERC and Idaho Commissions issued orders approving the Company's application on April 18, 2006 and July 5, 2006, respectively. In Washington, a joint settlement agreement by Avista, WUTC Staff, and Public Counsel was filed on January 5, 2007. On January 16, 2007, the WUTC Staff filed on behalf of Avista and Public Counsel a request that this case be resolved by conducting a hearing on the written record, and avoid the need for an oral hearing. In Oregon, a settlement conference was held January 11, 2007 and a revised procedural schedule was adopted in order to facilitate the on-going settlement discussions. The OPUC Staff and Party Intervener testimony is now scheduled for March 20, 2007, while Company Rebuttal testimony is due April 26, 2007.</p>
<p>Washington Natural Gas Decoupling</p>	<p>On February 1, 2007, the WUTC issued a Final Order granting Avista's request for approval of a natural gas decoupling mechanism pilot program. The Order accepted the joint settlement, subject to conditions limiting accumulation of interest and carry-over of benefits between periods. The mechanism will provide Avista with the opportunity to recover the fixed costs of providing distribution service to gas customers following a decline in usage caused by conservation and price elasticity. The proposed mechanism does not track changes in margin related to variations in customer natural gas usage caused by weather. Rates will be adjusted annually at the same time as the PGA, and would be limited to no more than a 2% annual rate increase. The Mechanism is applicable to only residential service.</p>
<p>Oregon Purchased Gas Adjustments / Gas Hedging Investigation</p>	<p>The PGA increase in Oregon of 6.9% was approved with an effective date of November 1, 2006, subject to refund pending further review of our natural gas purchasing and hedging strategies. On January 4, 2007, a settlement conference was held and on February 9, 2007, a joint stipulation was filed for the purposes of resolving all issues related to the investigation of Avista's gas purchasing strategies. Parties included in the stipulation are Avista Utilities, the OPUC Staff, and the Northwest Industrial Gas Users, but does not include the Citizen's Utility Board. A prehearing conference is scheduled for February 26, 2007.</p>

Key Indicator	2007 Target	YTD Results	YTD Target	Met	Variance
LL	\$ 938,516	\$ 77,132	\$ 78,839		Inadvertently budgeted Regulatory Fee Expenses Quarterly, not Monthly. The Actual Variance would be Favorable, \$28,042
EE	\$ 2,813,250	\$ 209,352	\$ -0-		
Total:	\$ 3,751,766	\$ 286,485	\$ 78,839		Unfavorable \$ (207,646)

Employee - Sustain and encourage the continuing commitment of employees to the company.

Bench Strength/Backup	100%	100%	100%	Yes	
Employee Communication	12 Annually	2 YTD	1 YTD	Yes	
Employee Learning	24 Annually	YTD	2 YTD	Yes	
One-Leave (accrued vs. taken)	2916/hrs (projected ytd)	224 YTD (1/07)	213 YTD (1/07)	Yes	

Community - Show we care about our community by being involved.

Community Involvement	467/hrs. Annually	45/hrs. YTD	39/hrs. YTD	Yes	
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Special Thanks to...

- **Liz Andrews and David Meyer** for their work in the Washington and Oregon Holding Company cases.
- **Brian Hirschhorn, Jason Thackston, and Kevin Christie** for their on-going efforts and filing of the joint settlement stipulation in the Oregon Natural Gas Purchasing / Hedging Investigation.
- **Ron McKenzie** for his continuing work in the implementation of Oregon's Senate Bill 408.
- **In January, Avista received a draft final report from the Oregon Public Utility Commission's Audit and Review of the Company, in which the draft final comments included: "Staff appreciates the cooperation received from Avista during the audit process, particularly Avista's timeliness and exactness in responses coupled with its professionalism and willingness to work with Staff in order to complete this report in a timely and quality manner. Avista's record keeping was excellent, and as a result, Staff did not discover any major concerns with Avista's financial and operational performance." Thank you to the Numerous Departments (in fact there are too many to list individually) for all of their work during this audit.**